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THE ROLE OF THE DEPARTMENT OF COMMERCE IN THE U.S. TRADE POLICY, PROMOTION AND REGULATION, AND OPPORTUNITIES, FOR REFORM AND CONSOLIDATION

HEARING

BEFORE THE

SUBCOMMITTEE ON
OVERSIGHT OF GOVERNMENT MANAGEMENT,
RESTRUCTURING, AND THE DISTRICT OF COLUMBIA

OF THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

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THE ROLE OF THE DEPARTMENT OF COMMERCE IN THE U.S. TRADE POLICY, PROMOTION AND REGULATION, AND OPPORTUNITIES FOR REFORM AND CONSOLIDATION

THURSDAY, MARCH 20, 1997

U.S. SENATE,
OVERSIGHT OF GOVERNMENT MANAGEMENT, RESTRUCTURING,
AND THE DISTRICT OF COLUMBIA SUBCOMMITTEE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 9:35 a.m., in room SD–342, Dirksen Senate Office Building, Hon. Sam Brownback, Chairman of the Subcommittee, presiding.

Present: Senators Brownback and Lieberman.

Staff present: Ron Utt, staff director and Esmeralda Amos, chief clerk.

OPENING STATEMENT OF SENATOR BROWNBACK

Senator BROWNBACK. We will go ahead and get the hearing started. Thank you all for joining us this morning. This is going to be the second in our series of hearings on the Department of Commerce. We looked first in last week's hearing at some of the management issues and problems that have been existing at the Department of Commerce, and some of the changes we could make there. This hearing will be focused on the role of the Department of Commerce in international trade policy and promotion. We're going to be exploring that role with three panels that we have present today.

The first panel will be two members of Congress who have proposed a plan for consolidating the trade promotion and the trade policy making functions within the Federal Government.

The second panel will look at the overall trade policy and promotion structure within the Federal Government. And the third panel will be the deputy undersecretary for international trade for the Department of Commerce.

This has been an area of some focus for a period of years in Congress. The Department of Commerce is just one of 18 agencies involved in trade policy making, and 19 involved in trade promotion. And different agencies take different leads in different subjects.

The U.S. Trade Representative's Office is the lead in trade policy and negotiations. The ITC is the lead in import protection, such as anti-dumping. Agriculture has the biggest export promotion program, and the Customs Service is the lead in enforcing our export laws.

Because of this, the Department of Commerce plays second fiddle to many other agencies in the overall trade field.

I do have a letter here today from Senator Roth, who is a member of this Subcommittee, and is unable to join us today because he is chairing another hearing. He has been a long time advocate of creating a consolidated Department of Trade. And I just want to read one paragraph from Senator Roth's letter, where he said this:

I appreciate your invitation to testify before the Oversight Subcommittee on March 20, 1997 at the hearing to examine the trade policy role of the U.S. Department of Commerce.

As you know, I have advocated for many years the creation of a Department of Trade which would unify the trade functions of the Department of Commerce and the Office of U.S. Trade Representative. In my opinion, a Department of Trade would allow our government to pursue trade policy and negotiations and to administer our trade laws in a more rational and efficient manner.

So I'm sorry that Chairman Roth could not be here today, but he is vitally interested and pretty focused on this subject as well.

Our first panel will be two members of Congress, as I had stated previously, who I will have an introduction for a little bit later, and I'm delighted to have my former colleagues from that historic 104th Congress joining us today.

But we'll be able to talk—gosh I get choked up thinking about the 104th Congress. [Laughter.]

Senator LIEBERMAN. So do I. [Laughter.]

Senator BROWNBACK. We'll look forward to their testimony. I do hope that this can be a discussion like around a kitchen table about what we can and should do in this area of trade promotion and trade policy development, because clearly we've got a lot of players trying to do a lot of things, and if there isn't direct duplication, there's a lot of overlap that's taking place.

And I believe we can have a more effective trade policy and save dollars for the taxpayers of America if done right and done well. So I'll look forward to those presentations.

And with that, I will turn the mike over for an opening statement to another member of that historic 104th Congress, Senator Lieberman from Connecticut.

OPENING STATEMENT OF SENATOR LIEBERMAN

Senator LIEBERMAN. Thank you, Mr. Chairman. It's my pleasure to join with you in this morning's hearing on international trade and the Commerce Department and to thank you for the way in which you're going about this series of hearings on the Commerce Department.

In the last couple of sessions there have been times when I think some of us who have supported some of the activities over there have felt that we were fighting on the question of whether there ought to be a Commerce Department or there ought to be any government role in trade or commerce. And undoubtedly that will be part of the conversation here today. But my sense is as you are going at it that we really want to see how best government can work together with the private sector to support American trade.

And I appreciate that, and to say the obvious, this is not—the array of governmental programs supporting trade and exporting are not necessarily the neatest and most orderly alignment.

And, as we've learned in the private sector, nothing that exists ought to be assumed to be the best way to go. And I could even put it more to the point: very little that existed five or ten years ago in the private sector exists as it was then, so there's no reason we should have a sense of defensiveness about the status quo in government. In fact, we should have a decided sense of challenge and innovation about it.

Exports are important to the American economy. If I may look at this in a local or parochial sense, my own State depends on exports and trade to a very substantial degree for its own economic growth.

Connecticut, actually, has the highest per capital rate of exports of any State in the United States. And those exports tend to create higher paying jobs requiring more skilled employees.

I was struck by a recent study that found—these are National figures, not Connecticut, but they apply equally to my State and all States—workers in exporting plants on average earn 15 percent more than non-exporting plants.

Benefit levels are between 25 and 40 percent higher. Exporting plants are at least 30 percent more productive than non-exporting plants. Out of a list of 15 modern manufacturing technologies, exports employed 40 percent of those working in those industries.

And the failure rate in plants that are involved in exporting is 30 percent less than those that are not. All of this is by way of saying, in statistics, that we're in a global economy. And to succeed in a global economy, you've got to be sharp.

Skill counts a lot, particularly for a developed economy like ours, and trading and exporting successfully.

Interestingly, the benefits that I've described, the advantages tend to appear once a firm makes a commitment to exporting, not necessarily after a long period of time in which it's reached a certain level. Which is to say in another sense that the benefits of exporting are not reserved only to the large multi-national firms.

So acknowledging that trade is a good thing, or at least advocating that position, the question then becomes what should the role of government be with regard to trade. And I take for my inspiration here this morning the somewhat battle scarred, war-weary words of Jeff Gartner, who used to be undersecretary of Commerce, during President Clinton's first term, but who has now sought refuge in my home city of New Haven, Connecticut as the dean of the Yale School of Organization and Management.

But Jeff said, having been involved in this, and I quote, in the best of worlds, government ought to get out of this business all together, which is to say the business of trade. But the marketplace is corrupted by the presence of government. So do you sit on the side and pontificate about Adam Smith, or do you enter the fray.

That's an interesting way to phrase it. And obviously what he has reference to is the enormous involvement of nations with which our businesses compete in support of the trading efforts of those businesses.

So I think there is an important partnering role for government to play here with American business in promoting exports. The Department of Commerce has performed an essential role, I think, in helping American firms and workers take advantage of the tremendous opportunities offered by the global economy.

We're never going to achieve perfection here, but I think there is a lot of room for improvement and hopefully together on a bipartisan basis we can achieve that improvement. Part of that is hearing the kind of testimony that we will hear this morning.

Thank you, Mr. Chairman.

Senator BROWNBACK. Thank you very much, Senator Lieberman.

We now have our first panel today, and we have with us Congress John Mica from Florida, and Congress Rick White from Washington, two States deeply involved in trade, and two individuals who I know have personally been directly involved in a great deal of trade activity, and have watched the trade issue from various perspectives.

So I appreciate your personal perspectives, and your perspectives as members of Congress. So, Congressman Mica, the mike is yours.

TESTIMONY OF HON. JOHN L. MICA,[1] A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. MICA. Thank you, Chairman Brownback. It is indeed an honor and privilege to be with you today on this side of the Congress to talk about a subject on which you are really an expert and a leader, one who in the last Congress helped spearhead attention to this problem of how we compete in the international marketplace, and how we organize our agencies of government.

In the spirit also of your request that we make this an informal discussion, I would ask unanimous consent that my formal statement which the staff, I'm sure, toiled many hours on, be made part of the record.

Senator BROWNBACK. Without objection.

Mr. MICA. And what I will do is proceed by just informally addressing some of the issues that I think are of major concern and that deserve our attention as a Congress. I would also be remiss if I didn't recognize the leadership that Senator Roth has played in this issue.

When I came as a freshman in 1992 one of my goals was to find a way to reorganize our trade operations in the Federal Government, and Senator Roth had been there for I think more than a decade, or many, many years advocating similar changes and reorganization.

So he is indeed a leader and knowledgeable on this side of Congress, and I salute his efforts.

Let me tell you how I got involved in international trade. I was actually sitting back where some of these folks are in the back many years ago as a Senate staffer, and then let me warn you all, too, that doesn't last forever, because you, too, will find real employment. [Laughter.]

Mr. MICA. And when I did, I was cast out—you'll find 1 day maybe your boss doesn't win. But I was cast out into the private

[1] The prepared statement of Mr. Mica appears in the Appendix on page 45.

sector, and I got asked to help on an international trade problem for one of the major corporations, and found myself on a plane going to Venezuela sometime after 1985.

And I sort of got thrust into the world of international business, and ended up representing many large firms—I'm sure you'd recognize the names if I mentioned them—and many small firms in overseas business.

And what stunned me was how ill armed and how ill aided our American businesses are abroad. And it's not that we don't spend a lot of money, or that we don't have a lot of folk involved in trying to assist business. In fact, we have 19 agencies, Federal agencies, that spend $3.2 billion in that effort.

And this chart isn't my chart, but I think one of our colleagues, and it may have been Nick Smith, one of them put this together. And it shows part of the problem. And this chart shows the trade coordinating committees.

And the situation got so bad that some years ago they put together a trade coordinating committee of all these agencies, because the right hand didn't know what the left hand was doing.

This trade coordinating committee is sort of a band-aid on a very serious organizational, dysfunctional operation of our Federal Government.

But this is how we conduct trade with all of these agencies, again, in an expensive, uncoordinated fashion.

Now, is this important? Is this important? Last year our merchandize trade deficit reached a staggering $166.6 billion. Now, stop and think about it. I was thinking about it last night, and I didn't research this, but probably for the first time our National deficit has been exceeded by our trade deficit. Stop and think about that.

This outflow of cash will eventually catch up with us, because we're buying goods from other countries—and that means fewer good paying jobs in our country, fewer economic opportunities for all Americans.

So to me it is as important and as vital as the National deficit that we're facing. So we must really look at some way to effectively organize. And the elements of this are trade promotion, trade assistance, trade finance and trade negotiation. Those are the elements, and getting them all together.

So as you look at the Department of Commerce, you have a small piece of this puzzle. Now, Senator Brownback, we all remember the last Congress, and sometimes with mixed emotions. But I introduced the reorganization bill with some of you on the other side, again.

We reduced the number of committees in the House in the last Congress to 18 committees. To show you how dysfunctional this trade operation is, my bill was referred to 11 committees of the House—11 out of 18. And I still don't know how we did it, but we made it through all of these committees.

We actually had a draw. We had Mexican stand-offs. We had all kinds of things, but we eventually got the proposal forwarded, and I know the proposal made some progress here in the Senate.

But because there are so many people that have a piece of the pie, and they are all protecting their own turf, and they want to continue the inefficiencies and the bureaucracies they have created, we have literally created a monster that doesn't function well, and maintains the status quo.

So that's what we have to contend with. It's a very, very difficult undertaking.

And trade is just a small part of the Department of Commerce. As you may recall, there are somewhere in the neighborhood of 30,000 employees in the Department of Commerce. If you identify those that deal with trade or business, you get down to about 3,500. So it's a small piece of the Department of Commerce puzzle.

I proposed a consolidation into a Department of Trade. I take no pride in authorship. I'm willing to take almost any arrangement that makes sense, and that's our challenge, to find what makes sense, what can be most effective.

And to do this right, you've got to look at other jurisdictions. As many of you may know—I don't know if the staffers know this—of how much of the business overseas is conducted. And that is one of the important arenas in our embassies.

Our Foreign Commercial Service officers are located within the embassies, but in the Department of State facilities. We also have USAID now, which we should be looking at and others should be looking at, which is now trying to justify its existence by betting into trade promotion and assistance overseas, creating another wing and another problem, and entrenching themselves in this, and not always communicating. And I could give you specific examples.

Our AID mission still far exceed anything we do with Foreign Commercial Service assistance, and AID, I hate to say it, is a post-World World War II mentality in providing this assistance to folk and not providing a way to conduct business and trade and build industries.

So we're still emphasizing this approach. You go to some of our foreign posts and our AID mission is sometimes twice or three times as big as the embassy staff.

And then, Senator Lieberman said, do we enter the fray. I don't think we have a choice. The parameters have already been set by our competition, and I have other charts here that show that we are getting our pants beat when it comes to promotion budgets.

For example, as a proportion of gross domestic product, UK, France, Germany and Japan all just beat us. If you look at other financing programs, we just get slaughtered. And when you have government, industry and finance all working together—in fact, in most countries there is now a seamless relationship between some of these activities.

I have been in business. Some of you have been in business. You can cut any business deal if you can finance the project properly. And I could sit here the rest of the morning and tell you where we got beat in financing, and also in the ability to promote and assist our business.

Let me just say that I am not here to speak for big business, but I think big business needs our attention and needs the support of our government in this, because they are competing, and these conglomerates are put together, and they beat our pants in many instances.

Some of our big businesses can compete. What concerns me also is our small business and medium business. Because the United States has for many years relied on domestic markets, the trade between Connecticut and Kansas has been good. The trade between Washington and Florida has been good, and good opportunities.

But those opportunities extend now beyond our borders. And when you take the French and the Italians and the Japanese, and around the world our major trading partners, they've been trading internationally for centuries and centuries, while we have grown from a domestic market activity.

So we are in this marketplace, we are in the fray, whether we want to be or not. And the question is do we provide the tools, the organization, the assistance to our medium, our small and our large businesses.

And there is no question about it. The job opportunities for the future, whether they're again in Connecticut, Kansas, Florida, wherever, the promise and the statistics that support it, good paying jobs, good economic opportunity for our folks.

The answer, too, isn't, you know—no disrespect to the former Secretary of Commerce—isn't taking just a few business folks around the world and helping them. That was a good idea. It's good for our government to do that and hold hands.

But think of the thousands and thousands of medium and small, even large businesses, that were left behind that didn't get that opportunity. So just because some good was done in these things, in this approach, that's not the answer, that's not the defense. We have to be looking to the future.

Finally, our goal is to eliminate duplication, overlapping. Make it mean, clean and lean. Give our business and industry every tool possible to compete in the world. And I think if Congress reorganizes these activities, it really has to go beyond the scope, even of your Committee here, as I've outlined a little bit today. The problem is greater than just your jurisdiction.

So you're going to have provide leadership, and many members of Congress have no idea how things are organized or how they interlink to this problem. So I've spoken far beyond the time allotted, but did want to make those points, and I thank you for allowing me to be with you today.

Senator BROWNBACK. Thank you, Congressman Mica. I appreciate that presentation, and we'll have some questions in a little bit.

Next we'll call on Congressman Rick White, good friend from Washington, and who has also been involved in the trade field from another perspective. And Rick, the mike is yours.

TESTIMONY OF HON. RICK WHITE,[1] A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. WHITE. Thank you, Mr. Chairman, and Mr. Ranking Member. I will say that I probably feel very much the same way that soldiers of the Revolutionary Army felt in the late 1700's when after fighting side by side with General Washington they finally got to see him become President of the United States.

[1] The prepared statement of Mr. White appears in the Appendix on page 48.

And to address you as Mr. Chairman gives me very much that feeling.

Senator BROWNBACK. Oh, boy. You are kind.

Mr. WHITE. I also would like to submit my statement for the record, and won't make you go through my reading of it. But I do have just a couple of points I'd like to make. I think we probably all come from trading States and trading districts.

You know, the trading lanes of Puget Sound go right by my house, and when I look out of my window at home, every day, there is a ship on its way to China, or a ship on its way from Japan coming to the ports of Puget Sound, taking apples or cars or software or aircraft components in one direction or another.

Trade is very important to my District. It's very important to our country. It's one of the foundations of our country's prosperity right from the beginning. Yankee traders are one of the things that got our country off in the right direction. So I don't think any of us can misunderstand how important it is to our economy.

I also think, if we're fair about it, none of us can really disagree that the way we have organized our trade functions in the Executive Branch now isn't the way we would do it if just sat down right now with a blank sheet of paper and tried to design the most efficient system possible.

As Congressman Mica pointed out, we have these trade functions parcelled out in many, many different areas of the Federal Government and the Executive Branch, and that's probably not the right way to do it.

I introduced a bill last year that would take a small stab at this problem. It was called the Trade Modernization Act, and it basically would have consolidated in the United States Trade Representative's Office most of the trade functions of the Federal Government, certainly those at the Department of Commerce, which, as I understand it, represent about 8 percent of that Department's functions, not really a big percentage of what they do. It's primarily a statistical function that is being undertaken at the Department of Commerce.

It just makes sense to me, from an organizational standpoint, to have those functions consolidated in one Department of one agency, whose function is limited to international trade. And I think that would be a big step in the right direction, just from an organizational point of view.

I will say that the greater issue that we need to address, and I think Senator Lieberman raised this point, is what is the role that the Federal Government ought to play in promoting trade. The quote was a very interesting one, whether it's enough to sit back and pontificate about Adam Smith.

My own view, though, is that it's not—although we should be engaged, the way we should be engaged is a little bit more of an open question, in my mind, than perhaps in some others.

You know, I very clearly remember the year 1989, and the whole discussion we had about high definition television at the time. If you recall you could pick up the Wall Street Journal at that time, and read a lot of hand wringing about how once again the United States was losing out to the Japanese, because the Japanese were organized, and they were all focused on one particular form of high definition television.

And if we didn't adopt a trade policy like that, we were going to find ourselves once again losing out to the Japanese in their analog high definition television technology.

Well, the next year, Americans in our system of free enterprise invented digital high definition television, and that's why we're now the leaders in that area. And I make this point simply to say that just because other countries in the world feel that they have to subsidize their trade, and they have to take the approach that they take to try to promote their products overseas doesn't mean that we should give up our tradition of free enterprise and Yankee trading because usually if we're doing something right, it triumphs in the end.

And I would ask us to think very carefully about whether we want a representative of the Executive Branch of our Government focus simply on promoting trade, or being the salesman for American products overseas.

My own view, coming from a District that represents Boeing and Microsoft is that Boeing and Microsoft can do a heck of a lot better job selling their products overseas than the Federal Government can do in helping them.

And, really, we don't want those decisions on what products should be bought to be based on political considerations. We want to be able to compete in an open marketplace.

So, from my perspective, what the Federal Government ought to be doing in terms of trade is fighting for open trading policies around the world. That really should be the primary function of the Federal Government, opening those markets, so that our people can get in there and compete fairly in an open market situation.

Because if we do, we'll win, and our country will prosper. And I think if we go too far down the road of having the political side get involved in these transactions, we find that these decisions get made on a political basis, and frankly that's not the strongest place where our country can compete.

We've got to compete on merit, on just the commercial details of a deal. That's my view, and I know it's one that's subject to some debate, but I think if we reorganize our trade function a little bit with that in mind, that would help us be more effective in the right way.

Now, one last comment. Human beings don't like change, and it's a hard thing for any of us to do. And I think making this sort of change in the existing administrative framework would be a difficult thing.

Ambassador Barshafsky was in our Subcommittee yesterday, and I had the opportunity to ask her some of these questions—how would they react to giving her department a little more umph in terms of international trade.

She didn't seem all that red hot on it, just to start off. So I think we in Congress are going to have to think very carefully for ourselves about how this ought to be done, certainly in conjunction with the Executive Branch.

But it's a process that we really shouldn't avoid. I couldn't agree more with Senator Lieberman, that we need to take a fresh look at how our policy is organized, try to figure out a better way to do it. And if we figure out a better way to do it, we shouldn't let inertia and all our normal resistance to change stop us from taking those steps.

So having said that, I applaud your Committee in looking into this issue, and I think with Congressman Mica we would both be delighted to answer any questions at this point.

Senator BROWNBACK. Thank you both for your testimony and your thoughtful insight as to what you would do in the bills that you have put forward on this.

Let me ask you, Congressman White if I could, we look at this and we say, OK, the real thing that we want to do is open markets. Would you use the tools that we have now to open those markets? Is that the way we should do those, or should we drop back on a number of these tools and say we're only about opening markets, and these tools really are inappropriate for government.

I'm thinking of some of the export finance programs. I'm thinking of some of the export promotion dollars. What would be your perspective on that in a near term basis?

I think we all would agree that on a long term basis we should be negotiating internationally through the WTO or other means to remove all of these tools from the use of government. And we should just say, this is inappropriate for the role of government in an international setting.

What would you do on a near term basis until we get those sort of international agreements?

Mr. WHITE. That's really the crux of the question right now, and it's one that we have struggled with a lot. I think there is a role in the current international situation to finance some of our exports.

I think a lot of our exports couldn't be made if you didn't have some financing. But I do think our goal ought to be to minimize that and to eliminate it over time, as you say.

My concern is more the idea of having the Federal Government be the specific deal closer for certain sales that might be negotiated in the private sector. That's where I think we really get ourselves on the wrong side of this politics versus commercial equation.

And I would just like to see us recognize that if you can open markets, our companies are likely to succeed. They don't need help in making the sale, but they do need help in doing something that a private enterprise simply can't do, which is to negotiate with another government, and get that government to compete with us on a fair basis.

Senator BROWNBACK. What do you think about that, Mr. Mica? Should we be involved in the near term, in export financing? And I want to add that AID being rolled into a Trade Department, is a new twist from what I've seen previously.

Mr. MICA. Well, I don't think we have any choice. Just look at the charts, what our competition is doing in finance, for example. We must have programs. Ex-Im, there's some proposals. I think even Mr. Kasich was talking about doing away with Ex-Im.

And I shudder to think—Boeing, I would imagine many of their planes—I don't know what the percentage is, but to compete in this international market you have got to compete on an equal footing.

My colleague talks about a wonderful world we would all like to get to. But, you know, you have every day battles, and we're fighting in the international markets, and we've got to have the tools to do that.

And, again, I laud his lofty goals, but in the mean time it's a dog fight. And if our folks are not well armed or equipped, and they've got government support of these activities—if it's research and development, they tie all their aid packages into some economic development package.

I watched us lose Chile. Chile is a great market, one of the outstanding in South America. And the biggest trading partner with Chile is Japan. And the U.S. has been zeroed out. And they have used financing there as a tool.

So we have got to compete. AID had a purpose and a mission, and I don't want to say AID is all bad. There are very good programs in AID, and they are programs that should be continued. But it's role should be dramatically changed.

I think the figure now is 16,000 people in AID, and about 7,000 in Foreign Commercial Service operations.

Senator BROWNBACK. But you would eliminate AID and role the remnants into trade?

Mr. MICA. I think that AID, its mission has changed. You may want a smaller, downsized AID in some areas. But even that mission should be more oriented to helping hand, to conduct business, as opposed to just give-away programs. Now, there are going to be give-away programs whether we like it or not.

But if you're going to assign personnel, I would rather them having working in assisting our companies overseas. If you all get to travel, go in and see what our Foreign Commercial Service offices are doing. I do that, and I've traveled all around the world. And they are ill-equipped. They are understaffed.

Japan, UK, France, Germany—their embassies have turned into trade missions. Their goal is no longer just diplomatic.

I will give the former Secretary of State some credit, because he did begin to start making our embassies aware that their mission is not just diplomatic. It is also one of promoting trade. But there is a great variance between embassies in their capabilities.

So if you're going to have assistance to our folks overseas, I would rather see the resources there.

Now, communications today has also dramatically changed access to information, whether it's trade assistance, promotion, financing. And there are some efforts to put a lot of this into some type of network that can be pulled up.

Even the private sector has several services where you can get this information, and may even transcend what we're able to do in government. But a lot of these folks can't talk to each other.

I was down in Haiti, and they were looking for some citrus products or something like that, and they got a Department of Agriculture person trying to find out this information. I was in Guatemala. Guatemala, their Foreign Commercial Service office didn't have a modem so that you could transmit data information back and forth.

I was in Russia, and we had—you could count all the Foreign Commercial Service officers in Moscow on one hand. And the AID building is as big as the Dirksen Building, practically.

It's funny, because when I went to Moscow, I flew over and we met with those folks, and I came back, and I turned on the television. This was a couple of years ago. Things have changed a bit since then, but on the TV was a broadcaster broadcasting from Moscow, and he said tonight we're at the biggest trade fair in the history of Moscow, and it was hosted by the Japanese.

And here I had just come from our AID give-away mission, which is our biggest enterprise, and the Japanese were doing a trade fair. Things like that. And the government does support these fairs and other things, actually assists businesses into these markets.

Then what's amazing is if government provides this little bit of help, then business takes over, and business—our business can compete. Our business can beat the pants off anybody. Our workers can produce products. And actually our products are even sought overseas, but sometimes they aren't bought. They're sought but not bought, because of the way we're structured and the assistance we provide. So that's a long answer.

Senator BROWNBACK. A couple of real narrow questions, and then I want to turn it over to Senator Lieberman.

Number one, you both fundamentally believe from your private and public experience and perspective that the current design of the system is fatally flawed and not producing the way it should. Would that be fair?

Mr. WHITE. Yes, but I mean fatally flawed may be going too far. I think we can make significant improvements, and we ought to try to do that.

Mr. MICA. Very expensively flawed. I always do the cost/benefit analysis, and they fail.

Senator BROWNBACK. Second question would be, do you both agree that the primary function should be opening markets overseas? Or is it promoting our products? Or can you not agree on the primary function of our trade apparatus?

Mr. WHITE. I was going to say I do think that should be our primary function. That's the one thing the government can do that the private sector can't, and I think if we organize ourselves around the principle that that's what the Federal Government ought to be doing, that will help us do that job better than we're doing it right now.

That doesn't mean that for a period of time or recognizing that we live in an imperfect world, there isn't some promotion that should take place at the same time. But I just think we make a mistake if we start to let that cloud our judgment about what the real role of the Federal Government ought to be.

Mr. MICA. Well, I think that there is a role for the Federal Government today, maybe for some time in the future, for trade assistance, trade promotion, trade financing, and certainly trade negotiation. And the role may vary. It may change.

So we've got to be flexible, create something flexible. But I know this is very costly, the way it's now structured. It's not as effective as it should be, and it leaves a lot of people behind, and it shouldn't.

Senator BROWNBACK. Senator Lieberman?

Senator LIEBERMAN. Thank you, Mr. Chairman. The discussion and your testimony have been very helpful. And I appreciate the questions that the Chairman asked at the end, which show the consensus here, and I share it.

And that is that we are in a situation now where we do need to have a trade promotion and financing role, but there is nothing to be self-righteous about, to put it mildly, or defensive in terms of trying to do better what we're doing.

I remember early on I got interested in this after I came to the Senate. I remember meeting with a business in Connecticut, and they were telling me they had just gone through a negotiation, a competition, really, for a major contract abroad. I believe it was in Asia. And they were competing against a company from Asia and a company from Europe.

And they said there were simultaneous negotiations going on between the vendor and these three competitors. And they were in a room alone. And in the other room was the Asian company, plus the representative of their finance ministry and their export financing agency. And the same was true of the European company. And our company lost the competition.

That memory always sticks with me. So in a way that alters the terms a little bit. The reality of the market is changed by the activity of the other foreign governments. So it forces us to try to help our businesses to compete in that marketplace.

Obviously as time goes on and we can reduce some of those—and maybe we can—some of those activities by foreign governments, we can do the same ourselves.

I am interested in what you said about USAID, and it's something to think about. I haven't visited this topic for a while, but early on while I was here, there was a movement which was somewhat successful, and in some ways may account for some of what we're seeing, what we called tied aid.

We were trying to set up standards where more of the American foreign aid was tied to business opportunities for American business as opposed to just giving away, and the whole notion was that if we helped—well, the classic example—helped invest with American foreign aid in their telecommunications infrastructure, then they, whatever foreign country it was, would continue to come back to American companies to supply and maintain that structure.

So they are playing a trade support function in that sense, and I had never thought before about how or whether we might coordinate that with the other trade functions.

Let me ask a couple of questions. One is, as you know, in 1992, Congress created this TPCC, the Trade Promotion Coordinating Committee, which has as its goal to do some of the things that we're talking about here. And I wonder how you would evaluate its record.

Mr. MICA. I view it, as I said in my testimony, as a band-aid approach. There are much more fundamental problems. Again, all these folk want to protect their turf. They are wonderful people, and some of them do a great job.

But the thing is still dysfunctional. It spends a lot of money. There is duplication, and there could be some consolidation. There are many difficult questions in how you restructure this, from the top all the way down to the bottom.

But it's our responsibility to bite the bullet and to put it in some order that does a better job, more cost effectively. And again, that's just a band-aid holding this together.

And what will happen, in some instances the private sector is leaping ahead. Remember I talked about the communications? There are some services now that are, in the private sector they are providing better assistance than the government.

But when the right hand doesn't know what the left hand is doing in government, you have a problem. Now, they may know, but they want to protect their turf. So that provides some temporary, band-aid approach.

Senator LIEBERMAN. So you'd say that we need more than a coordinating committee?

Mr. MICA. Oh, yes. No question about it. And a coordinating committee can't do what we have to do, and that is, we've got to go through and eliminate some of these positions. If you look at some of the trade assistance areas, too, there is duplication.

Through some communication, through spending a few bucks and communicating, you can eliminate many of these positions. We don't need that information. Putting some of that on line—we have the capability of hooking up all of our embassies in the world in instantaneous communications. Now, why can't they have through that incredible technology that we have in communications with our embassies have a link for trade and instantaneous information?

Somebody in Kansas should be able to instantly find out what the opportunities are in South Africa or in India. Some little pieces of this are starting to be put in place, but not in a good fashion.

There are little experimental things out there. But our role as Congress is to put it together, make some tough decisions. There have got to be some positions eliminated.

Another one, not in your jurisdiction, is go to an embassy and start looking at the economic counselors that they have. These are post-World War II statistics gatherers. I submit to you today that most of the economic information that they have is readily available or provided somewhere. So what are they doing, these economic counselors?

And you will have in some embassies more economic folks than you will have Foreign Commercial Service folks. And then gain we look at AID. We look at what we're doing, and tied aid is very important. Almost every country uses that approach—the Japanese, the Canadians.

I was in Haiti, and represented some Florida industries before the fall of the government there, and one of the things we looked at was having the Florida folks upgrade the utilities. Because you can't conduct business without utilities.

And as it turned out, we wanted to have U.S. firms put in the generating equipment, or work on that. When I came back, as a member of Congress and went down to ask how's the power generation project coming, the Canadians had got the project. Well, the Canadians won the project—it's basically a tied aid thing. Then they will be putting in the power things. The telephone polls will be Canadian, the switches, all the generation equipment.

So these things have a big impact in future business opportunities, and we need to be devising a system that can compete and give our folks at least a level playing field.

With that, there is a vote.

Mr. WHITE. We have to go. Let me just comment on this coordinating committee.

Senator LIEBERMAN. Yes, go ahead.

Mr. WHITE. Which is that it essentially prevents us from doing what we really should do. It's adding another agency, instead of really going through and organizing things on an appropriate basis.

Senator LIEBERMAN. Take 30 seconds, if you would, and answer for me what I gather is the reflexive question about your proposal to put all the trade agencies under the USTR. Is it appropriate to combine both the trade negotiation advocacy, opening up markets function with the promotion function?

Mr. WHITE. I think so, because the fact is you're kidding yourself if you think that function isn't consolidated in the first place. I mean, when we're negotiating with a foreign country, we're the United States and we're not the U.S. Trade Representative, or somebody else.

And I think that conflict of interest exists. It's going to go on whether we have it organized differently, and it really just gives other countries an ability to play off one agency against another.

We're really probably better from a functional standpoint in having one agency responsible for making that particular decision.

Senator LIEBERMAN. Thank you very much.

Senator BROWNBACK. Thank you very much. Good seeing you again.

The next panel that will join us is Professor William Lash from George Mason School of Law. He is an expert on international trade and business issues. Dr. Ed Hudgins, an expert in trade and regulatory issues at the Cato Institute. And Mr. Ed Black, the president of the Computer and Communications Industry Association, and that's an association, obviously, very active in export issues.

Gentlemen, we've very pleased that you would join us today. Sorry if there was a bit of a delay, but I hope you also found the last panel somewhat enlightening. I think you just heard from a couple of members of Congress who are some of the leading thinkers about how we should be reorganizing our trade functions to get the most out of it.

I was struck by one of their statements that now our National trade deficit exceeds our National deficit. And actually I think maybe Adam Smith may have more to say about that than some others we will see.

But with that I believe we'll start, Professor Lash, with you. As I said earlier, we can take your written testimony. Happy to do that. I'd rather have a kitchen table discussion. You proceed however you are comfortable. Thank you for being here.

TESTIMONY OF PROFESSOR WILLIAM LASH III,[1] DIRECTOR OF THE LAW AND ECONOMICS CENTER, AND ASSOCIATE DEAN OF GEORGE MASON UNIVERSITY SCHOOL OF LAW

Mr. LASH. Thank you, Mr. Chairman and Ranking Member. I will refer to my written testimony, but I would also like to comment on the excellent discussion by the previous panel.

I am in partial agreement with both of the previous panelists. I have long advocated the approach of Senator Roth and Representative Mica to a unified trade agency. However, I'm more in sympathy with Representative White's approach for a limited trade agency.

I also want to preface my statements by saying I am not here just as an academic, which is always a negative comment in this town. I am actually an exporter in my free time. I have never once gotten any assistance from the Ex-Im Bank, OPIC or the Department of Commerce.

The Department of Commerce's stated role is to promote job creation and economic growth, sustainable development and improved living standards for all Americans. Who could possibly disagree with those statements?

Unfortunately, the Department of Commerce's actual functions, particularly in international trade, have very little to do with accomplishing these goals. The trade functions, people have stated earlier, duplicate the efforts of other agencies and States, and the private sector, while engaging in a massive wealth transfer, and showing limited results.

Secretary Daley has earlier appeared before this body, and stated that the Department of Commerce will be continuing to engage in aggressive export promotion. The Secretary stated they have put $250 million in export promotion, resulting in over $40 billion in overseas sales. He maintains that advocacy for American exports is one of the prime responsibilities of the Department of Commerce, and these efforts are paying off dramatically, claiming that some $65 billion, including $38 billion in American content exports, were generated from these advocacy efforts.

Those are very impressive claims made by the Secretary, but in the words of a popular film today, I ask you to show me the money. Nineteen agencies, as people have already stated, have some role in promoting U.S. exports. While the Department of Commerce controls only 8 percent of this budget.

Despite Secretary Daley's assertion that the Department of Commerce is at the forefront of trade promotion efforts, nearly 75 percent of export promotion expenditures are made by the Department of Agriculture.

Regardless of ideology, economists generally agree that it's virtually impossible to verify these claims of trade promotion. Even Bob Shapiro, of the Progressive Policy Institute, and a former economic advisor to President Clinton, admits there is no economics to this argument. Shapiro correctly recognizes that what is going on is nothing more than a wealth transfer of taxpayer monies.But that's at the expense of industries who don't have the clout. You're simply shifting things around.

[1] The prepared statement of Mr. Lash appears in the Appendix on page 51.

American exports are competitive in global markets because of the productivity and ingenuity of American entrepreneurs and workers. It is insulting to the many successful large and small exports who succeed without federally financed export assistance.

The fan rooting for his team while watching the game on TV may take pride in the victory, but he can't be so delusional to think that he actually scored the winning touch down.

The International Trade Administration, part of the Department of Commerce, is the home of the Big Emerging Market Initiative. The ITA will help exporters find distributors, refine their export strategy, set prices, find language interpreters, and refine their information needs—everything but build the product and design for you as well, it appears.

It also assumes that no one else could accomplish these tasks. Regional banks, consultants, and, dare I say, attorneys, and chambers of commerce are also capable of filling this role, and do so on a daily basis.

Information regarding trade leads are generated by industry groups and private news services. When I mentioned my industry—I work in the cable industry as director of a cable network—we get our leads frankly by going to cable shows. The cable operators from Argentina or Chile are there. Not the Department of Commerce.

And again it's a minimal expense, because the cable shows are typically held in places like D.C. and New York. This may not be true for all industries, but the information is out there, Senator.

The ITA, frankly, is unfairly competing with private service providers. At a time when even the poorest of our citizens are being forced to become more self-reliant, the Department of Commerce cannot continue to offer these needless subsidies.

The Department of Commerce, ITA, has also been touting the effectiveness of the National Export Strategy for the past several years. The NES, as many of you are aware, targets specific countries as Big Emerging Markets for export penetration.

These BEM's are Mexico, Argentina, Poland, Brazil, China, Indonesia, India, South Africa and Turkey. I don't think any exporter ever needs the Department of Commerce to tell him that China and India are big emerging markets. Simply looking at any book on economics or picking up the Wall Street Journal will tell you that is where the growth is.

Similarly, the NES targets specific sectors. Under the BES—I love the acronyms—the Big Emerging Sector initiatives. These targeted sectors include aerospace, telecommunications, information technologies, environmental technologies, and infrastructure industries.

Let's take an area like aerospace. Export finance or export promotion is not going to be what makes Boeing or McDonnell-Douglas successful. They will continue their success, and, again, since Boeing is the number one player in the aerospace market, and McDonnell-Douglas is number three, you could do more for these companies simply by relaxing of anti-trust controls, rather than export finance or export promotion.

I think if you had representatives of these companies before you, and gave them a trade-off, we'll make this sure this merger goes through, or we will give you some export finance, I would be hard pressed to think that they would not take the former.

The bottom line, Senator, the importance of big emerging markets and sectors should be made by businessmen, not bureaucrats. The government has no role in picking winners and losers, and I'm sure Dr. Hudgins will comment further on that.

As former GATT Director General Peter Sutherland once noted, once bureaucrats become involved in managing trade flows, potential for misguided decisions rises greatly. As the former panel mentioned, HDTV is a stellar example of industrial policy gone awry.

Also the National Export Strategy, while promoting subsidized loans and guarantees for exports, will support non-market, non-finance based considerations in selection of loan recipients. The NES not only selects based on where they think there will be growth. For example, environmental technologies have been targeted for special consideration, not simply because it's a market with great demand globally, but because a political decision has been made that we want to promote environmental technologies above others.

Under this plan, the Department of Commerce will make export financing readily available to environmental technology firms, while, quote, identifying suitable markets for environmental products. This glaring attempt at industrial policy and managed trade empowers the government to select a designated sector for market development and subsidization.

I know people always say, we must join the fray and not spout off Adam Smith. And I was a long detractor of now-Dean Garten. I hope I have not forced him into academia, though.

But I must point out this constant belief, this mantra of, everyone else is doing it. If I was an 18-year-old, or a 20-year-old young man in China or in Europe or Japan, I'd find my prospects for advancement far less than they are in the U.S.

Obviously this idea of managed trade is not what is leading productivity and success. At the same time, for everyone to talk about the great—how we are being overspent by the Japanese and the Europeans, well, that means we are winning.

Because we're the leading exporter with less money being spent on export promotion. Obviously they are the ones who are losing out on this.

Now, getting back to the question of redefining or reorganizing various trade functions, some of the ITA's function is informational rather than export finance or subsidies. These functions can be provided, if necessary, by other agencies.

For example, overseas commercial attaches should be detailed to the Department of State. The attaches currently report to the U.S. ambassador anyway, who is an official of the Department of State.

I also find that since many States—Kansas, Connecticut, Massachusetts, to name just a few—have their own trade promotion activities, with offices in Europe, Latin America and the Pacific Rim. State governors and officials, even mayors of large cities—even Marion Barry managed to find his way to Hong Kong, I believe—routinely travel abroad to promote exports of their State.

The Department of Commerce should not be duplicating these efforts. As we seek to shrink big government and return power to the

States, we should extend the same courtesy and model to export promotion.

The ITA is also actively involved and promotes itself as the guardian of United States firms suffering from unfair competition from foreign producers. By this I am referring to the anti-dumping laws. The Department of Commerce is the designated administering authority, and conducts the investigation to determine whether or not dumping is likely to take place.

The ITC, my former agency, considers the question of injury. Commerce's role is to determine whether or not the imports under investigation are sold in the U.S. at less than fair value. The role of the ITA as a political body, versus independent agencies like the ITC, is not conducive to an atmosphere of trust and integrity in our anti-dumping laws.

The Department of Commerce, again, has many functions. So does ITA. While engaged in market negotiations and export promotion on the one hand, how could I be perceived as giving people a fair shake in determining dumping margins? We really can't underestimate that.

I can tell you from personal experience that the dumping margin is probably the most important factor in determining whether or not an affirmative finding will be found.

Since cases are not typically brought by healthy industries, a sizable dumping margin found by the Department of Commerce will get you a 75 percent chance of finding an injury.

The bifurcated nature of the investigation can have no rational, political or economic basis. If the ITC is determining the condition of the American industry, and the final question of injury, I have always found it curious as to why the Department of Commerce was engaged in that determination.

Other functions of the Department of Commerce, such as pursuing market access, implementation of the General Agreement on Tariffs and Trade—GATT—and the World Trade Organization—WTO—while monitoring trade agreements, can best be handled by the USTR.

If the USTR is charged with negotiating most of these agreements, shouldn't implementation be linked with monitoring of these agreements?

The Department of Commerce, Bureau of Export Administration, BXA, safeguards our National security by monitoring and controlling the export of potentially dangerous dual-use technologies. But BXA is not the sole arbiter on export control issues. The Department of State has a major voice in implementing the Arms Control Munitions Act.

Five years ago, an interagency report prepared by the Departments of Commerce, State, Defense and Energy, recognized the error of the decentralized control of export regulation. The report concluded, consolidating these functions under the appropriate official will provide not only the proper oversight, but also a more efficient and effective approach for tracking referred applications and examining export trends.

If export controls are truly a matter of foreign policy, let BXA join the Department of State, and let there finally be one voice on export controls. If Congress believes that export controls are a matter of National security, let BXA and the arms control function of State be jointly transferred to the Department of Defense.

BXA is slated to have responsibility for export control under the Chemical Weapons Convention, if ratified by the Senate. As a major new export control initiative, this role would seem more properly suited to the Department of Defense.

A plurality of exporters polled by the U.S. Chamber of Commerce, indicated that they have seen no changes in export markets due to the administration's export policies. Export promotion and finance activities cannot be the dispositive factor in export success.

Interest rates, currency rates, and infrastructure are far more significant in determining export success. Similarly, the Congressional Research Service similarly concluded that U.S. economic policy and the domestic supply and demand of capital will continue to determine the level of trade and employment for the economy.

To boost exports, government relaxation of onerous Cold War export regulations will be far more successful and frankly less expensive than relying on government trade promotion.

An estimated $30 billion in increased exports is expected as we relax export controls on certain computer equipment. Billions more in exports are exports when telecommunications sales are similarly eased.

Export promotion activities, be they advocacy, financial subsidies, or informational, should be left to the States or private sector. And this notion of governments competing, and the Department of Commerce as our champion should be frankly banished to the scrapbook of economic history.

Thank you for your time.

Senator BROWNBACK. Thank you, Professor Lash. I appreciate that presentation. We'll have some questions later.

Dr. Hudgins, we would appreciate your testimony. The mike is yours.

TESTIMONY OF EDWARD L. HUDGINS,[1] DIRECTOR OF REGULATORY STUDIES, CATO INSTITUTE

Mr. HUDGINS. Thanks a lot. I'm going to depart a little bit from my written remarks, and do as you suggested, to suggest some general guidelines for how to reorganize the Department of Commerce.

First of all, there really are two approaches to trade and economics. The one that seems to fascinate a lot of people is typified by MITI in Japan, but I think actually a better case is found in Western Europe. This is the notion that governments can help industries directly, pick winners and losers, help in exports, et cetera.

I point out that in Western Europe unemployment is over twice as high as in the United States, around 12 percent; job creation is virtually zero; under-employment is a very serious problem.

The industries in Western Europe are now becoming non-competitive. Germany is not building plants in Germany any more. They're building them in South Carolina, and they're building them in the Czech republic and lots of other places.

Essentially those corporate welfare systems are collapsing, and I think if they don't make some major changes, quite frankly, you

[1] The prepared statement of Mr. Hudgins appears in the Appendix on page 63.

will see in Western Europe a slow motion version of what happened in Eastern Europe—that those systems will fall apart within the next decade without major reforms.

The notion that we should copy such a failed system I think is a serious mistake. Japan has a similar system, perhaps not quite as bad. But again, to the extent that Japan has had success, it has not been primarily because of their government promotion policies.

MITI tried to stop Honda from going into the auto business. MITI tried to keep the Japanese auto makers from expanding the numbers and kinds of models that they had. If you look at a lot of the MITI advice, for example, you find that it was a mixed bag to say the least.

The point is that if we are concerned that Western Europe and the governments of Western Europe are, as it were, outdoing us in getting involved in the economy, I would say yes they are, and that's why they are collapsing.That's why in Western Europe, unemployment—and everyone unemployed tends to be unemployed for approximately a year. In the United States it's maybe two or 3 months.

Their systems are not systems that we should copy. We should run as fast as we can in the opposite direction.

The other approach is a more market approach, and that's what I think we should take.

Before we get into detail, the trade functions of the U.S. Government fall into three categories. One is market openings, such as negotiating free trade areas, such as the recent Uruguay Round that created the World Trade Organization. These, I think, are valid functions of government. They are, of course, performed principally by the USTR, and while I might disagree with some of the content of the negotiations, I think it's a valid function. The USTR does a pretty good job.

The second function that the U.S. Government is involved in is trade restrictions, that is, preventing Americans from disposing of their own property, specifically from purchasing products from other countries.

This, I think, as I say, is an infringement on the liberates of Americans, and should not be a matter for the U.S. Government. Unfortunately, we do have trade restrictions.

We have anti-dumping laws, which I consider simply to be protectionism under a different name. I don't consider the anti-dumping laws to have any basis in economic theory, especially when you are not talking about a government directly helping another industry. We can get into that a little bit later.

That, of course, is a function that is in part performed by the Commerce Department and part performed by the International Trade Commission, and I think it's an unfortunate function.

The third is export promotion, which I will go on the record of saying I don't think it's the government's business. Let me give you some of the reasons and concerns that I have here.

First of all, it is important how we think about trade and exports. No doubt the Commerce Department members and members of all the other agencies that we've seen that are involved in export promotion can point to the fact that they have given money or assistance to some particular industry, that the people in that industry have used the money well or prospered in some way.

But if you drop money out of a plane over Washington, everyone who picks up money, number one, is going to be glad they got it, and, number two, they're going to probably use it for something of which we approve.

That does not necessarily make good public policy. I think we have to go a little bit beyond that.

There is no indication that I have seen that government picking winners and losers, either directly through the kind of subsidies the Department of Commerce passes out, or in terms of helping exporters is any better than what the private sector does on its own, and what they could do with their own money.

And we've mentioned the case of the high definition television. I will remind you that in the 1960's and early 1970's the U.S. Government spent $960 million on a supersonic transport that we were absolutely convinced we needed to remain competitive in the world.

Of course, we didn't make a supersonic transport. The French and the British got stuck with one. They haven't recovered their development costs. They don't run the thing at a profit. It was a big flying turkey.

This is the problem with having government involvement. Now, let's take a closer look at the trade issue. One of the serious problems I have with how we reorganize trade functions is that free trade does not become managed trade.

This has been the trend in the last few years. Not where we tried to get a foreign government to remove a trade barrier that they should remove, but where we tried to do bureaucrat to bureaucrat management of trade flows.

For example, the recent complaints about semi-conductors are to me a key example. What you found is that the administration argued that because the United States controlled 40 percent of the world market and only 25 percent of the Japanese market, that indicated that they were doing something unfair and that they should guarantee us a market share.

Well, you can turn it around and point out that the Japanese control about 40 percent of the market, just a little less as well, but only have 20 percent of the U.S. market. So the Japanese, using the same logic, could say that we are being unfair.

In fact, in the high valued microprocessor chips, the U.S. suppliers control something like 70 percent of the Japanese market. The point is you see a lot of this attempt to use numbers to manage trade rather than to do what I think the U.S. Government should be doing, that is, creating free trade and removing real barriers. That is something I am very concerned about.

I will make two more remarks. First of all, I want to say something about the problem of corruption, which has been one, of course, that Commerce Department has been associated with recently.

In a sense, you have two forms of corruption. Classical corruption sees a government official give some special favor to a citizen, maybe they expedite a license, they give them a special government loan or contract, in return for some direct remuneration.

There is another form of corruption that I call institutional corruption that we see especially in Western Europe, and unfortunately in this system as well. The corporate welfare state, by its nature, breaks down the separation between government and the private sector, between political and economic power.

Government is expected to help this interest group, this business, this sector directly. What you get as a result is a form of institutional corruption that differs from what you see in Third World countries only in the form of remuneration.

Politicians and bureaucrats will get, of course, political support. They will get the prestige of helping the people and so forth. But the mechanics is the same.

So when I hear that the Department of Commerce officials have been involved in straight out shakedowns of foreign businessmen, in a sense it doesn't surprise me, because that's the nature of the system.

And I think that that has to seriously be taken into account when you look at how to reorganize Commerce and whether, in fact, you want to copy one of the system that we see in other countries.

The final thing I will say about reorganization, yes, we have a lot of bureaucratic sprawl. That's the nature of bureaucracies. Everybody wants to get involved and show how they're helping the people. But I'm concerned that when you reorganize, you insulate the market opening functions that are currently performed by the U.S. Trade Representative, that is, negotiating free trade areas and so forth, from some of the other functions.

It will detract from America's effectiveness and credibility if the same Department and agency that is saying we want you to remove a trade barrier is also saying we would like you to give some special preferences to U.S. goods, we would like some kind of managed trade arrangement, by the way we think your businesses are dumping in the American market, and, by the way, we're also the guys who are handing money or assistance to some of our businessmen.

I worry that if we mix those functions together, it is going to take away from the effectiveness of our trade negotiators. And, as I have said, I don't think we should be involved in some of those other functions anyway. But that's the one thing I would emphasize as a guideline in reorganization.

I will end there and welcome your questions.

Senator BROWNBACK. Thank you very much.

We will now hear from Mr. Ed Black, president of the Computer and Communications Industry Association, which is very active in exports.

TESTIMONY OF EDWARD J. BLACK,[1] PRESIDENT, COMPUTER AND COMMUNICATIONS INDUSTRY ASSOCIATION

Mr. BLACK. Thank you very much, Mr. Chairman. I'm happy to be here. Senator Lieberman, as well. I appreciate this opportunity to testify. Our industry certainly has a great interest in global trade, and a lot of involvement.

[1] The prepared statement of Mr. Black appears in the Appendix on page 68.

We represent a cross section of small, medium and large companies with both computer, telecommunications, hardware, software and services backgrounds.

First of all, let me just say I will not give a very long statement. I will submit it for the record. I have a few prepared comments to make now, and lots of notes on what people have said before me to comment on, but I'll hold those.

I believe many others will provide a lot of impressive statistics to the Committee showing how many new jobs and how much of our economic growth that we have experienced is related to international trade, and not just growth totally, but the amount, the percentage of our economy and the jobs related thereto.

Our industry is a very globally competitive industry, and we're growing stronger. Effective competition in global markets is essential for our industry's health and survival. We're attracting many competitors, which is fine. We are wary of some energetic efforts, however, by other governments to bolster our competitors in ways which might be unfair.

We can succeed, but we do need to have the proverbial level playing field.

We're also wary of too much government involvement. We recognize there are areas where government and the Commerce Department can play a particularly important role, and we welcome those areas.

We think this is a pragmatic decision that should be made, not ideological. We want and need a healthy and open global market place.

We have years of experience, frankly, being critical of government and Commerce in many areas. But in contrast to some of the earlier comments that have been made, we don't think the current system is broken. We are succeeding tremendously, our companies are, our industry is, and many other industries are succeeding quite well.

I'll comment on the trade deficit. Comparing it to the budget deficit is like comparing apples and oranges. The trade deficit, I think almost everyone will admit, is largely a function of macro-economics. Right now the vitality of the American economy is sucking up products both from by U.S. companies and imports from overseas.

I think it would be very inappropriate to use that as a measure somehow of the unhealthiness of the trade system and our structure of government.

We are sometimes nervous when we hear discussion of the role of government as an enforcer, or regulator or attacker, at times. But even language calling the government a partner has made us nervous.

I think we see the need for an ally, and at times a catalyst and a stimulator. There are things government can do to leverage limited resources that do have a tremendous pay off for our economy. We see trade promotion, advocacy and assistance functions in this light.

We urge that attempts to change structures be based on making sure that any fixes don't damage the many programs that are supporting some pretty successful outcomes. "Penny-wise, pound-foolish" is a saying that many in industry admit has applied to some of our decisions when streamlining.

And we urge government to learn from us. The structure of government is important. Though many in business, frankly, don't often focus on structure, our main concern is: Are important functions being effectively carried out, are programs helpful or harmful, are programs responsive to the real world of the private sector?

To the extent that we can save or retarget resources that are being inefficiently used or redundant, that's certainly desirable. But it's important primarily that well run programs be structurally in places where they work.

They can be in different agencies. There is no one magic formula how to structure. I think it is very important that we have good communication and coordination between those different structures.

In that regard, I found the chart that was shown fascinating. And I have worked with John, and I'm going to have to get a copy.

But what is important in government that is missing from some of the proposals relating to structure is location because of the policy role—not the operational role. It's really the function of government to be an advocate of different concerns, and that's where we find the structural differences are so strong.

I think everybody has mentioned export controls, and I will come back to that. And that is where policy and function are tied very closely together.

Over the years we have watched many reorganization plans in the trade area. We have seen some partially implemented, and, frankly, many have had a lot of alluring effects.

But under analysis, and sometimes just because of political pressure, most have wound up losing their appeal, and frankly if we felt the system was broken, I would be more intensely involved in finding the solution.

But as I said, I'm not sure we feel—it's not neat, without a doubt. It's messy. But is it—and I heard dysfunctional. Is it really? I'm not sure I see the harm. I don't see how it's hurting us. We are booming. We are succeeding in many ways.

I'm not sure it's broken. Congress deserves no small amount of credit for the better working of our system, because the Export Enhancement Act, passed by Congress, created the TPCC process for coordination. It has worked to a great degree in taking what was then a very disorganized effort, and making it into a much more coordinated and cohesive one.

There is always a danger when you have so much diversion and you start coordinating that you wind up with group decision making, and as a result have no real accountability. This is an area I would urge the Committee to stay focused on.

I think it's important that agencies be given principal responsibility. They don't have to all be in the same agency. But you do want to know who is responsible for pieces of it, so that they can be held accountable.

We have to applaud, looking at what's happened the last several years, what Commerce has done with the Congressional mandate to coordinate. We think there's been strong leadership, and from all indications Secretary Daley is committed to continuing that, and we welcome it.

We think Commerce can lead, but making sure our policies are aimed at opening markets, promoting exports, enforcing existing trade agreements, being a strong advocate for the free enterprise system, with other governments and within our own.

As a country, we need to be able to identify, understand, respond to developments in global business and developments undertaken by foreign governments, whether it's bribery, product standards, technology, financing, or export promotion.

I will end with one area where we have had such long, historically consistent problems that it deserves mention, and that is the export licensing, export administration, both policy creation and licensing.

We have more agencies involved now in the interagency license review process than we did at the height of the Cold War. I think accountability has suffered greatly as a result. The only thing that saved, our industry is that so much has been finally decontrolled that was not effectively controllable, that the pinch is not as bad as it used to be. But there are still areas where that hurts.

There was a reference to BXA possibly being at State or Defense. No. Please. Don't do that to us.

I'll leave the other points—I'd love to have a chance to dialogue on a number of the interesting points that have been raised. Thank you very much, Mr. Chairman.

Senator BROWNBACK. And thank you, Mr. Black, for giving of your time to come here and speak with us. And since Mr. Lieberman endured all of my questions at the start of the earlier panel, I am going to let him go first on this set of questions here. So, Senator Lieberman.

Senator LIEBERMAN. Thank you, Mr. Chairman. That is very gracious of you. I did not really consider it to be an endurance test. But you're nice to let me go first. I appreciate it.

Mr. Black, you said something that is slightly off the focus of the hearing, but I found it so intriguing I just wanted to engage you on it for a moment, which is your caution to us not to overreact to the size of the trade deficit, because, as you say—or you're interpreting it as a sign of our economic strength, which is to say that we are consuming a lot, including a lot from abroad.

So how do we judge the trade deficit? Does it have any—you know, we don't like to be in deficit on anything. It's our nature. It's almost as if we're losing a competition. So what value does it have to us?

I mean, interestingly, Congressman Mica, I believe, did exactly what most of us in Congress would do, which is he talked about the importance of trade, and then he said that we have a problem. And the indicator of the problem is the trade deficit.

How would you use the deficit, if at all?

Mr. BLACK. I appreciate that. I think the deficit has such a negative connotation as a word. I think that is part of the problem. And I think somehow over the years we have come to think of exports as good and imports as bad.

We're in a global business. We import, export, invest, source all over the place. There can be deficit situations that can be unhealthy. You need to look at the numbers to see if it is a sign of some kind of structural weakness.

Senator LIEBERMAN. In our own economy.

Mr. BLACK. In any economy. You need to look at what we're doing, and exports and imports are a relevant factor. But a deficit, per se, depending on which industries are strong, what your natural resources are, a whole bunch of factors. And a deficit may not indicate any weakness whatsoever. It may be just a sign of strength.

The fact that we import things that people want is really a way of enriching the American public. It's wealth creation. Pick the classic, VCR's—we don't make them here.

We could shut off all the VCR's and we'd have a positive impact on the trade deficit. But would we be helping any American citizen? No. So the numbers themselves are just misleading. You need to look at what they mean.

What we look at are the overall trade number, and the trade has grown dramatically. It has fueled our economic growth, and trade includes imports and exports. It's both.

Most of CCIA's companies are multinationals. On the computer side, especially, 40 to 50 percent of our revenue comes from exports. So I think exports are good.

We also are huge importers of products, of components, of sourcing. It's just too integrated. Global economic trade is too complex to use simplistic trade deficit numbers which are real tempting to want to use.

But they should not be controlling. I'm seeing a lot of head nodding.

Senator LIEBERMAN. You're saying that what we really should be looking at—and obviously this question of whether the trade deficit is related to domestic structural economic weaknesses, but also more relevant is the—if I can put it this way—the absolute numbers on trade. Are we exporting more, particularly?

Mr. BLACK. Again, and not saying imports are bad. We can get that tendency, but we are exporting a lot, and what we're exporting is a huge percentage of high value manufactured products. We're not just a natural resource exporter. So it shows strength.

Senator LIEBERMAN. That's very interesting to me. Let me come back to our focus here. In your testimony you have basically taken the if it ain't broke don't fix it. We're doing well for the reasons you've just stated.

I presume that Mr. Hudgins and Mr. Lash might say that, yes, we are doing well, but it's not because of the government support for trade. But I'll come to that in a minute, but let me ask you if you would for a little more detailed evaluation of the TPCC, the Trade Promotion Coordinating Committee.

Are there any changes you would make in the apparatus of governmental promotion, financing for trade?

Mr. BLACK. Over the years I have probably advocated some. And I'm not sure I wouldn't still feel that, given the capability to make changes, I would. I think one of the best ways, and what I've tried to convey is a structure to think about it, which is to accomplish positive goals as the core rationale.

In that context, the way we spend—first of all, what we spend in this area as a country—and I think some of the congressmen made the point—it's relatively small compared to other countries. But even given that as a set number, the way in which we distribute our resources throughout the trade bureaucracy is not necessarily a sensible one.

I represent manufacturing interests. But clearly, if you look at the trade promotion dollars, agriculture which is important, but nevertheless a more limited part of our economy, gets a huge percent. And that's a trade allocation issue.

Maybe if there was a structural change so that those decisions were made in one place, it would force more of a rationalization. I think that's a big one.

A lot of the others—again, USTR is worthy commenting on, because it's mentioned so prominently. And it's been really tempting over the years, and I have toyed with wanting to combine Commerce and USTR.

But WTR is liked by many in the business community because it is lean and mean and quick. You can really cripple it if you start making it run a bureaucracy.

For anyone to not think there is tremendously important coordination between the Commerce functions of information gathering, support for negotiations, they worked very closely with the USTR, they're part of the same effort.

But the USTR people, senior people, very skilled people, are not burdened with the management of that structure. And I think it enhances their ability. I'm actually a little nervous right now. They're getting into the trade enforcement world. And I'm not sure they should. Stay negotiators.

Senator LIEBERMAN. Let me ask just one question, and I don't want to burden you, Mr. Chairman, to Mr. Hudgins and Mr. Lash. Let me really frame it in terms of the anecdote I gave with this Connecticut company competing with an Asian and European company. Simultaneous negotiations. They're in the room alone, the Connecticut company.

The other guys have their finance—a representative of the finance ministry and export-import bank. And we lose. So what do we say—what would you say to that American company?

Mr. LASH. Well, it's kind of hard to counsel a person who loses, and there's a lot of reasons why someone loses. And the dispositive reason was you were there with a deputy assistant commerce secretary from MITI, and that's why they got the deal, I find that argument kind of hard to swallow, Senator.

Senator LIEBERMAN. Well, let me reframe it. My sense of what they were saying to me was that the reason they lost was that the other countries, in this case, particularly, were offering financing for the purchase.

Mr. LASH. There are a lot of private sector financing. I've done a lot of writing about Ex-Im Bank and export finance. There is private sector financing available. I think now if you're talking about tied aid, that's a different story. But if we're talking purely—and OECD has come out against tied aid—I think if you want to come out and get aggressive in those markets, we should bring these two questions to OECD, and bring the Japanese and the Europeans to the carpet.

And we've been very successful about——

Senator LIEBERMAN. Because of their tied aid.

Mr. LASH. Because of their tied aid programs. And not try to duplicate that. Now, former Secretary of Commerce Brown was always advocating more tied aid, saying the way to beat tied aid is to counter with tied aid. I think the real question is let's use the mechanisms we have built.

But I think the question of losing out on a particular sale, or having government financing available, there are so many regional banks. Twenty years ago, I think you would have a very good—I think it's an absolutely true story, where there might be difficulty is getting financing.

But now you've got so many regional banks coast to coast that have export offices that are willing to help small exporters—I've had students, second year law students, obviously not business people, walk in to regional banks and get export finance, for small products. Fish ponds for Germany, thinks like that.

So it can be done. The idea of two wrongs making a right is not true in global business. And it's certainly not true in other sectors.

Senator LIEBERMAN. Mr. Hudgins, do you want to give a brief response, and then I'll yield to the Chairman.

Mr. HUDGINS. Yes. I agree generally with what Bill has said. I would just add a couple of other points. In any given situation, you can point to examples where an American company might lose out because there literally is a MITI person there saying, and by the way, we will give you finance or some other thing.

Perhaps it's cold comfort to say that this does not imply that it would be an advantageous thing if we could counter subsidy for subsidy, MITI or any other government form of aid.

That means that we're going to lose out occasionally. We do, in fact, have most of our companies getting private finance and doing pretty well in the world market. I would say, by the way, this also argues for us looking a little bit more at our financial deregulation here. I've been following also the issues of banking deregulation that would make it much easier for us to do certain things that we would like.

Remember, in other countries, they are not burdened by some of the regulations that we are, in terms of their banking sector, so I would certainly look to that.

What I don't want to do is create what I consider to be a failed and failing system that the other countries have in order to deal with any given case where, yes, unjustly and unfortunately American companies might lose out because there is a foreign subsidy of which I disapprove.

By the way, I also think that that's something for a future World Trade Organization negotiations. I would like to see us negotiate away the ability of governments to do what our government does, what MITI does and what the Europeans do. And I hope that will be on the agenda in the future.

Senator LIEBERMAN. Mr. Black.

Mr. BLACK. I guess I, as somebody representing businesses, that's unilateral disarmament. Sorry, we don't want to do it. We have to play in the world, and we're doing real well. And academic—I mean, it's ivory tower.

Senator LIEBERMAN. OK. Thank you. Very interesting and lively discussion.

Senator BROWNBACK. Thank you. Mr. Black, would you agree with Congressman White that our primary mission on trade should be opening markets? Or would you disagree with that statement?

Mr. BLACK. I think it's an essential one. I'm not sure how beneficial, if you want to try to figure priorities. It is one. I think there are other important roles, as well, however. And I think the U.S. Government, again, I'm not trying not to be philosophical or ideological. I think there are real positive benefits that come from a variety of government programs and activities.

Senator BROWNBACK. So you don't have a primary mission for trade functions?

Mr. BLACK. Oh, I think opening—when we face closed markets, they are tremendously burdensome, and yes, they have got to become very important. We have had a lot of success in opening many markets. There are limits. We've had a lot of success. We're very big supporters of what we have done internationally. And I am not facing the same problems as I did. I don't mean to say there are no problems out there, but our companies are not facing the same intensity of closed markets that we did 15 years ago in many places in the world.

Senator BROWNBACK. So it's one of many needs, is that what you say? One of equal and many needs?

Mr. BLACK. It's a very important one, but not the only one.

Senator BROWNBACK. OK. And they would all be roughly equal in your estimation?

Mr. BLACK. No. It's hard to subdivide.

Senator BROWNBACK. Here's what I'm driving at, and you can dispute this, but it seems to me that we in government have frequently tried to do everything, and we end up doing most things poorly then.

And I really feel like we ought to do fewer things, probably as your business community does, but do them better. So I'm trying to focus in on, OK, what are the fewer things we should do. But if you dispute that, that's fine. I don't have any problem with that.

Mr. BLACK. I really am in sync with your emphasis on wanting to try to get to a simplified, let's call it one stop shop approach.

Senator BROWNBACK. No, that's not it. Not one stop shop. It's one specialized shop doing a very good job, or two specialized shops. But not 15 doing everything, is what it's been.

Mr. BLACK. And I guess I would go to the private sector metaphor, which is when you do global business as a company, you don't just do it alone. You go to banks, you go to accountants, you go to lawyers, you go to freight forwarders. I might say a freight forwarder is a less important function. The trouble is you've got to use them. It's an essential function, even though it's a less important one.

So I guess what I would—I'm not sure I'd say I support the status quo, and every single program and agency is vital or important. No, I'm not saying that at all. I'm very willing to look for unnecessary and inefficient, duplicative programs.

But I'm not starting out with the assumption that they have no value.

Senator BROWNBACK. Neither am I.

Mr. BLACK. I know. I'm not suggesting that. I'm just saying I want to look at them one by one, and not in an abstract sense.

Senator BROWNBACK. And you're not willing to prioritize. That's fine. If you would prioritize the functions, it would help us, but if you're not, that's fine.

Mr. BLACK. The USTR function, most of the Commerce functions we find valuable. BXA and export controls are negative in many ways. The USTR function is very important. Ex-Im, and OPIC, they're more specialized, but for whom they serve, they have a great deal of value.

Within the State Department, economic counselors I think have a little wider role than was described here. I think there is a danger there of maybe overlapping with the Foreign Commercial Service, and maybe that's one to look at. I think the Foreign Commercial Service has an important role there. But I think there is a different function, and maybe it shouldn't be allowed to overlap too much, but there is a different function, and maybe there for State.

A lot of the other agencies who are involved—you've got Energy—they focus on their narrow piece. I think you could make an argument that maybe you take the similar functions in different specialized subject matter agencies, whether it's Energy, Agriculture, whatever, and put them into a cohesive group. That's intellectually conceivable, and it might work in a practical way.

I don't see it as a huge gain. It might work. It might make sense. I'm just not sure that I don't see—I don't see a tremendous positive force or gain by doing it.

But I would be open to think about specific possibilities along that line.

Senator BROWNBACK. OK. If later you want to come back with a priority list——

Mr. BLACK. I'd be glad to.

Senator BROWNBACK. That's what we obviously have to do. We have been spending money like there's no tomorrow, but those days are ending. And you've been real critical of these functions in the past. Last year, in the House Commerce Committee your testimony was very critical of international trade functions.

You said international trade is an increasingly important part of our economy, and should be an area where functions are consolidated, not dispersed. There are significant linkages and synergies which can result from the various international trade operations and programs working closely together.

Which perhaps is not inconsistent with what you're saying today. It would be very helpful to the Subcommittee if you had a design consistent with this statement and todays testimony, of how we could pull some of these functions together. That would help us. Because that's ultimately what we're going to be looking for.

And I think it would help you folks, too.

Mr. BLACK. I'd be willing to participate. Over the years, and in past legislative efforts, we've made that effort. The difficulty, quite honestly why I am somewhat reserved here, is that usually they foundered on some very big, important political rocks.

The agriculture community being the most obvious. I didn't mean to target them for any reason, but the truth is it's a very significant—it wants to be treated separately from the rest of the American economy, and it's got the power to make it happen.

And as long as you leave that side out of the equation, I mean, everything else becomes awkward.

Senator BROWNBACK. Well, give us your proposal as you would create the world if you could do it.

Dr. Hudgins, you were saying that trade opening, that is an appropriate function of government, but trade restrictions, export promotion are not? That's basically what you are saying?

Mr. HUDGINS. That is correct.

Senator BROWNBACK. The earlier panel, Congressman White would certainly agree with you. But, it seemed like to me, he also was saying, we have to use functions two and three to get to function one. In other words, in today's environment, in today's world, functions, trade restrictions and export promotion are necessary until we get trade openings.

And Congressman Mica was basically saying, look, I'd rather we just do trade openings, but we need these next two functions to get us there, given the global situation. And Congressman White was saying, well, I'd rather not, but I think maybe near term we're going to have to.

What's your response to that suggestion, that if you just focused trade functions on opening markets, you're going to need tools two and three to get that done?

Mr. HUDGINS. Well, first of all, I would question both. In terms of the export promotion, again, I've been critical of it, because I don't think it's the main reason why America is the world's largest exporter, the world's largest economy, and we have the highest GDP per capita, I think, than any other country in the world.

Not because we spend a few million here and a few million there promoting exports. It's because of the quality of our products, and it's the kind of system we have. It's those sorts of things.

In terms of market openings, I don't see that as a good thing either. I think that the countries that have—actually, if you take a look at two indexes of economic freedom, one done by the Fraser Institute in Canada, but in cooperation with Cato and others; another done by the Heritage Foundation—and both of those indexes indicate that the countries with the freest economies are the most prosperous. And I believe the correlation holds for open markets.

So the point is that the countries that have the more closed markets are the economies that are crippling themselves. They are the ones that need free trade in a sense more than we do. Our markets are pretty open right now.

So I know that the leverage argument is what you usually hear. Well, we will drop our trade barriers in exchange for doing the same thing with the others. And, by the way, that works fairly well with free trade areas. If you have a country that's really honest about doing on a bilateral basis.

But, remember, I consider that where we do have our markets closed, we're harming Americans. We're restricting the liberty of Americans to dispose of their property. We're restricting the freedom of businesses that might need quicker access to certain inputs.

So I don't consider it a good thing to withhold freedom from Americans for this purpose. I think what you're seeing, as I mentioned in my remarks, is that the global trend is towards either freer markets, more open markets, and deregulation at home, or more managed trade, in which point the countries that try to stay with the old system are going to collapse.

That's going to happen in any case, I think. So while I see the argument in favor of using our trade barriers to leverage open other markets, I would say that it should not be made an essential thing. If we can use them because we have them, and they are unfortunate, that's fine and dandy. I'm happy to see it. But let's not push that too far.

Senator BROWNBACK. Mr. Lash, would you care to respond to that same question?

Mr. LASH. Yes. I definitely believe that opening markets should be the primary, and, in fact, the sole function of the Department of Commerce international trade area. But again I strongly believe it should be shifted to the USTR.

The export promotion activities are at best peripheral. If you look at the number of corporations that are succeeding in exports, and case studies, and see that they are doing it without any help whatsoever from export promotion, but that what has been important has been market opening initiatives.

And those initiatives which establish an open market for U.S. exporters are where you'll see the consensus. It's interesting, this whole debate, on corporate welfare, which I don't like that term, but it's the term people have been using, obviously, export promotion.

You'll see everyone from Cato and Heritage joining with Ralph Nader. And that's about as strange bedfellows as you can get. But when you talk about market opening, you see a differing consensus. You see a broader consensus across the spectrum, and no criticism.

So export promotion is an activity that is hard to find an advocate for export promotion, unless someone is already on line for that gravy train. For market access, I think you'll find that most Americans will say that's an important role.

Mr. HUDGINS. I would just add one other thing to follow up. When you talk about corporate welfare, that is a serious problem. I also think that the danger, one of the dangers of using our leverage is managed trade, which as I say is the drift we seem to be having.

If it's true market openings, I'm 100 percent in favor of it. If it's managed markets, bureaucrat to bureaucrat, that's the thing that I'm very concerned about.

Senator BROWNBACK. I would invite the two of you, as I have with Mr. Black, to design a new Federal trade organization. If you had a blank sheet of paper, and these assets, how you would design it today for us.

I want to thank the panel for joining us today. It's been very illuminating, and I appreciate very much the discussion.

Mr. HUDGINS. Thank you.

Mr. BLACK. Thank you very much.

Mr. LASH. Thank you.

Senator LIEBERMAN. Thank you.

Senator BROWNBACK. The next presenter will be Mr. Timothy Hauser, deputy undersecretary for international trade at the Department of Commerce. We appreciate Mr. Hauser being present here today. I don't know if you've been able to be present to hear the earlier testimony. We had proposals from two members of Congress, and then the current panel, looking at the current design.

Our intent in this hearing is to look at sensibility and functionality of the trade promotion and export market opening functions within the Federal Government, and try to make some sort of sense out of that. We appreciate your being here with us today and your testimony and the mike is yours.

TESTIMONY OF TIMOTHY J. HAUSER,[1] DEPUTY UNDERSECRETARY, INTERNATIONAL TRADE ADMINISTRATION, DEPARTMENT OF COMMERCE

Mr. HAUSER. Thank you, Mr. Chairman. It's my pleasure to be here. Thank you, Senator Lieberman, for joining us. What I would like to do this morning if I may is to talk basically about how the Federal Government is organized to help American firms and workers compete and win in an increasingly competitive global marketplace.

In particular, I appreciate the opportunity to speak with you about what the Commerce Department is doing, how we have focused in recent years on doing it better, and also what we are doing on an interagency basis to streamline, improve and enhance the export promotion services we provide for American business, particularly small and medium sized business.

If I may, Mr. Chairman, I'd like to submit my full statement for the record and briefly summarize, and then would welcome your questions and pick up on some of the other issues you've raised with the previous panel.

Senator BROWNBACK. Without objection, so ordered.

Mr. HAUSER. Mr. Chairman, the administration has made it a top priority to leverage Federal resources and focus our capabilities to help U.S. firms, both small and large, take full advantage of business opportunities overseas.

Exporting is not just critical to the United States. It is absolutely critical to our long term economic growth. In 1970, the value of trade was about 11 percent of America's GDP. Today it is about 25 percent.

In 1996, over 11 million jobs depended on exports. By the year 2000, that number could rise to as many as 16 million American jobs linked to exports. Over the past 4 years, exports have accounted for a third of total U.S. economic growth, with export related jobs growing several times faster than overall employment.

Moreover, various studies have shown that these export related jobs pay 13 to 18 percent more than average U.S. wages. The conclusion is clear: the more we shift into globally competitive sectors where exports are part of the picture, the more we will increase our own standard of living. Exports are fundamental to the health of the U.S. economy.

[1] The prepared statement of Mr. Hauser appears in the Appendix on page 77.

Our job in the International Trade Administration of the Department of Commerce is to promote American exports, to help them build and expand upon this tremendous growth. The International Trade Administration is composed of four integral parts, which work together to provide market information and export promotion services to the business community while guaranteeing a level playing field for our businesses at home.

And since I know, Mr. Chairman, that you have a particular interest in management and management issues, let me as I describe what our program areas do, and frankly having heard some of the previous testimony, Mr. Chairman, some of the other panelists may not have had a clear fix on what it is we're doing, I'd also highlight the efforts we have taken over the past 4 years within Commerce to do it better.

Our premier export promotion unit is the Foreign Commercial Service. It consists of over 90 offices across the United States, and 134 offices, at last count, in about 70 countries around the world. This is our delivery arm. It reaches out and provides our programs and services directly to the business community, whether at home or overseas.

To improve this service delivery, we have in recent years totally revamped our domestic field network into a series of inter-connected offices—we call them hubs and spokes—arranged around the central office that provides full service information, often in conjunction with the Ex-Im Bank, the Small Business Administration, local trade partners—whether they be chambers of commerce or other State government trade promotion organizations, to get our information out where the businesses are.

In addition, we have mounted a major effort to combine the two personnel systems that we had heretofore had. Our commercial officers overseas are foreign service officers. Our domestic offices have historically been tapped and staffed with civil service employees.

We believe to have a fully well rounded, responsive corps of trade experts. We want to rotate people. A person will learn the domestic side, in the domestic office. They might have a tour overseas to cover business transactions from all ends. That way we increase our expertise to help the business community.

Our second program area is our trade development unit. It is a unique source of industry-specific expertise in the Executive Branch. Trade development works closely with trade associations, as well as small businesses, to insure that our programs respond to the needs of the variety of industries, the full range of industries, in the United States.

With its trade information center, a 1–800 number, we open our doors to provide trade advice free to anybody across the country who is interested. In the past 3 years, we have built up within trade development a very effective advocacy unit, plugged in across the Federal trade promotion establishment, plugged in to our agencies overseas, to go to bat when asked by American businesses, competing in foreign competition where a foreign government is playing a role.

Our third program area within the International Trade Administration has been totally refocused over the past year. Previously known as International Economic Policy, it has been renamed and refocused on market access and compliance.

The administration has negotiated 200-plus trade agreements over the past 4 years. We want to work hand in glove with the U.S. Trade Representative's Office to insure that our businesses are getting the full effect of those agreements.

Through the market access and compliance unit, which is arranged on a country and regional basis, and our newly established, within existing resources—no new money went into this—compliance center, with a powerful database covering our major trade agreements, we think we can take a very proactive role in ensuring that foreign governments provide what they negotiated to us, whether it's in sectors ranging from autos to semiconductors to you name it.

Our fourth program area is not part of the trade promotion apparatus at Commerce, Mr. Chairman. It is our Import Administration. It provides the very essential service of enforcing our anti-dumping and countervailing duty laws.

The philosophy is quite simple. By enforcing those laws, Import Administration defends a level playing field for American businesses at home. It prevents unfairly traded goods from disadvantaging our companies in our domestic market, and in so doing is a powerful support and a basis for our being able to conduct a free trade policy.

This past summer, we reorganized the Import Administration to eliminate two levels of management, get people out of bureaucratic chairs, signing forms, putting them to work on trade cases, legitimate grievances brought by U.S. industry.

We have also looked at how we process cases. We used to have two units. One would handle a case through the decision-making stage. Once an anti-dumping order, our duty was imposed, a second unit would then pick up on it.

Now, we believe that the people who might work on a steel case or a semiconductor case from the beginning, will carry it through to whenever that dumping order is on the books and when it is ultimately sunsetted. The point being, the same experts, the same people who know these industries, will be intimately involved.

Mr. Chairman, the overwhelming majority of the work we do in the International Trade Administration is aimed at helping small and medium sized businesses undertake their first, or in sometimes their second or third overseas sale.

This in turn translates into helping thousands of companies break into new export markets every year. I put in my written testimony a number of examples. Let me just highlight one here in terms of the kind of stuff we do.

Carrier Vibrating Equipment, a Louisville, Kentucky, small manufacturer of conveyor belt systems has seen its exports grow from 10 percent to 30 percent of its total sales since 1990, as a result of aggressive marketing and interest on the part of the firm.

Government doesn't do this alone. We're partners with the private sector, as well as direct assistance from the International Trade Administration's Louisville office. Carrier has now growing sales in South Korea, China, India, and other Pacific Rim countries. They plan to add 15 to 20 new employees to its 100 person payroll right now—again, directly as a result of this foray into foreign markets.

As I say, there are other examples in my written statement. I believe the common denominator in each of these success is the role we have played in providing information and assistance in foreign markets, something that most of these small businesses simply do not have the resources to provide for themselves.

They don't have the money to send a representative overseas, open up an office. But they can use the resources of the Federal Government to provide to fill this information gap.

Why are small businesses the key? In looking at some data, it is estimated that small businesses account for about 25 percent of manufacturing output in the United States, but only about 12 percent of exports. There is a serious exporting gap, and concomitant lack of additional jobs that could be filled if we could help introduce these firms into the foreign markets.

And I think this is at the heart of why we are engaged in the export promotion business. Now, we don't do this alone in the Commerce Department, Mr. Chairman. To help ensure that the entire Federal Government is working together to promote U.S. exports, Congress, in its wisdom, through the Export Enhancement Act of 1992, created the interagency Trade Promotion Coordinating Committee, abbreviated TPCC, gave it a mandate to review, analyzed, streamline and better coordinate Federal export promotion efforts.

In response, we developed, at the President's direction, the Nation's first ever National export strategy. A blueprint, and we've now gone through 4 years of these reports, to increasing jobs, and economic growth through exports.

Since its inception in 1993, under Secretary Brown's leadership—the statute designates that the Commerce Department chair the TPCC—we have gone through the whole gamut of U.S. Government export promotion programs, and through our series of reports can identify a large number of success. Again, largely aimed at small and medium sized firms.

It wasn't always like this. What we looked at when we were launching the TPCC early in 1993 was an array of complaints and problems brought to our attention by the private sector. We heard horror stories, particularly across the country, of potential exporters wanting to get information, running around town.

They would go to a Commerce Department office here for market access information, trade leads, trade data. Then in the quest for finance, which is the major concern of America's small businesses thinking about exporting, they would run across town and hopefully they could find the Small Business Administration office.

They may then get diverted through a number of calls to the Ex-Im Bank or other agencies in Washington. We also heard, in addition to problems domestically, that our companies were being increasingly disadvantaged in overseas markets by very aggressive efforts of our European, Japanese and other trading partners.

Other countries were using trade distorting tied aid linked back to purchases from the home country, or other forms of political and economic pressure on the government side. You work with our country's firm on this kind of deal, and we'll work with you on developing an airport, or on private sector side, the tendency of firms in other countries to engage in bribery and related practices which are simply illegal in the United States.

The sum total of all of these practices was the loss of billions and billions of dollars in potential overseas sales. Given those conditions, their lack of access to financing, there was a busy agenda for the Trade Promotion Coordinating Committee to address, and we believe we're making good progress in doing this.

What we did, in the best spirit of government reinvention, was take a hard look at what we did, and in the current budget climate it was not a look that suggested we should go out and demand more money. Rather it was a focus on how can we work harder, smarter, better than anybody else, and leverage what the government was doing to improve our services.

We have had a fairly impressive list of achievements, Mr. Chairman, over the course of the last 4 years. Let me just give you a couple of highlights. We'd be glad to share with you and your staff our full set of National Export Strategy reports.

One, we have reduced potentially trade distorting tied aid offers by almost $5 billion annually by refocusing what the Ex-Im Bank does in this area. Two, within the Commerce Department, working with the interagency process, we have significantly liberalized outdated export controls on high technology products, freeing about $42 billion in exports from licensing requirements, while still effectively protecting our National security.

Three, we have created an advocacy center, and an interagency advocacy network—Commerce, State, the posts and missions overseas—to work to help our firms win major overseas contracts. We estimated we have supported about 300 projects with a total estimated export value over the life of these projects of about $50 billion.

This was not government doing it alone. We supported the business community's efforts. But where, on a project, in a country in the Middle East, the government of France may have been bringing pressure to bear, the government of Japan may have been pressing for its companies, we have stepped in as well to put the support of the U.S. Government behind our highly competitive firms.

We have only done so when we are asked. We did not go out and dig up things to do. It is when an American company comes to us, looks for assistance, meets a full set of criteria we have prepared, that we will then go to bat for them.

Another major accomplishment has been completing this National network of export assistance centers to provide one stop shopping. We have put under the same roof Commerce, Ex-Im and SBA.

So a company in Columbia, Ohio is not driving around Columbus. He comes to one office, he gets full service support for his efforts to go overseas. Last year we estimated that these centers helped with a total of over 8,000 export actions—meaning about 4,000 different U.S. firms have been able to step into foreign markets with our assistance.

We have also, as I have said several times, focused our efforts on small and medium sized firms, through enhanced information services, putting information on line, on the Internet, and looking at our financing mechanisms. We have also for the first time, working closely with the Office of Management and Budget, pulled together a comprehensive export promotion budget to identify how we are spending our export promotion dollars and ensuring that we do so in the right way by establishing performance measures to judge their effectiveness.

This cooperation, this synthesis of the agencies involved in export promotion is probably reflected—I'll tell you one other story about a company, Mr. Chairman. A small company, Bricmont Contractors, in Murray, Pennsylvania, is a small manufacturer of industrial furnaces.

Bricmont first tapped the Commerce Department in 1992. It was thinking about a deal in Mexico. They had never done any international work, but said let's dip our toe in the water of exporting and see what happens.

The Mexican company required financing, and it turns out that Bricmont's competitors in this particular deal, the Germans, the Italians and the French, were all assured export financing from their governments. We, through the interagency network that we have set up under the Trade Promotion Coordinating Committee, introduced them to the Ex-Im Bank and the Trade And Development Agency, which provides grants for feasibility studies, to help our firms get into foreign markets.

Bricmont got the necessary financing, they got the deal in Mexico, and since then they have expanded—they have already now done $10 million worth of contracts in Korea, in India. They are looking at opportunities in Europe and Russia.

The company has gone from a position where none of its business in 1992 was export drive to the point where it's 60 percent now. Again, government didn't do it. The aggressive management and sales force at Bricmont did, but we provided some help along the way.

Let me briefly conclude, Mr. Chairman, with what we're looking at on our agenda for the coming year. In our last report to Congress, we highlighted a strategy to respond to one of the greatest problems we are facing in world market—the practices our competitors use, legal and illegal, to succeed in the fastest growing economies.

One example is trans-national bribery. Since 1994, we estimate that bribery has been used by foreign firms in at least 139 international commercial contracts, with a value of about $64 billion. Through the TPCC, we developed a strategy to reduce these practices, because out of these 139 contracts, we can document that the U.S. lost at least 36 as a result of foreign bribery.

So we now have initiatives in the multi-lateral development banks, in the World Trade Organization, in the Organization for Economic Cooperation and Development to eliminate the practice of bribery.

In some countries it's still a tax deduction, a legitimate tax deduction. We also want this criminalized. We want to raise the world to our standards so our companies compete on a firm footing.

Another emerging area of incipient trade barriers which inhibit American exports is the use of commercial standards. Here the response has been our attempt to negotiate mutual recognition agreements. Otherwise, European country may go into a developing market like Saudi Arabia, introduce a European standard for a particular electrical device—the three plug standard. Our companies are permanently disadvantaged, because we still do things on a two plug standard.

We want to eliminate this competitive advantage other countries are setting up by providing technical assistance to countries developing standard systems, and working to internationalize standards so that we can all participate.

On another front, we are moving forward on new finance mechanism for small business. Last year, the Ex-Im Bank and SBA launched two initiatives to improve the ability of small businesses to obtain trade finance, and we will be following through on them this year.

Senator BROWNBACK. Mr. Hauser, I think Mr. Lieberman's going to have to leave here in a minute, so if you could summarize here quickly, we'd appreciate that.

Mr. HAUSER. I will, Mr. Chairman. I will conclude with the point that our competitors are investing more and more of their resources to help their firms succeed in these critical markets.

Let me give you one last number. In 1995, as a proportion of GDP, the United States spent 3 cents per $1,000 of exports, while France spent 18 cents, and Canada 33 cents. I'm sorry, per $1,000 of GDP, on their export promotion efforts.

We need to work harder, smarter to meet this foreign competition. We believe that we must continue to streamline and improve our services, and develop new strategies to meet the foreign competition.

I will stop at that, that our mission basically is where we started—exports and job creation.

Senator BROWNBACK. Thank you, Mr. Hauser. Senator Lieberman?

Senator LIEBERMAN. Thank you, Mr. Chairman. I have two things, one is to thank you for your testimony which I think has been very helpful, and comprehensive, and shows how much progress we've made.

You made an interesting point which I took to be the answer to the charge about winners and losers, that basically the Commerce Department is not making choices. The Commerce Department is responding to requests from American businesses that see a market opportunity in trying to help them achieve that market opportunity, and obviously I presume making an evaluation yourselves about the opportunity.

The question I would like to ask, and I really, with apologies, am going to ask you if you would answer this just for the record, because I regret I can't stay. Picking up the spirit that you evoked about more streamlining, which is how, and acknowledging that you feel that the TPCC has been very helpful, as you've documented, how do you respond to the statement that 19 agencies across the government is a lot of different agencies in a lot of different places, supporting the trade function.

Isn't there a better way to organize this? Maybe you might say it's in Commerce. Some others here have said it would be in the USTR. But do we continue to gain by that multiplicity of places?

And then I suppose the second question, if you would answer for the record, is what you would change if you could change, about the way we're spending the money.

I think the whole tone of this hearing is not that the government should leave the field, but how can we more effectively and more cost effectively be players in the field of international trade.

Mr. HAUSER. I would be happy to respond to that.[1]

Senator LIEBERMAN. Thank you, Mr. Chairman, for your kindness.

Senator BROWNBACK. Thank you, Senator Lieberman. I appreciate that very much.

I, too, may have to just submit a couple of questions in writing, unless you have specific answers for some of these questions.

Thank you for your testimony, and thank you for your thoroughness in going through these functions. We are wrestling with some key issues here.

Do you have macro numbers of what has happened as a result of U.S. Government investment in export promotion? You cited a number of anecdotal situations of companies you have helped, and I while I don't doubt that they've done very well with you support. But what I am curious about are macro numbers.

Your investment, our investment, the taxpayer's investment in the U.S. export promotion program has yielded what percentage increase in our exports, or total export dollar increase? Do you have that number available?

Mr. HAUSER. Mr. Chairman, and I realize your time constraint, as I mentioned, in the TPCC, we have, through OMB, developed a trade promotion budget. We're trying to, consistent with the will of Congress and the Government Results and Performance Act, develop performance measures.

For 1995, we spent about $3 billion on export promotion. We believe that that effort resulted in U.S. export sales of about $68 billion. These are measures in flux, Mr. Chairman. I would not tell you that they are letter perfect to the fourth decimal place, but we believe data like that show that we get a very healthy pay back for the taxpayer's dollars.

Senator BROWNBACK. But for the investment of this $3 billion, that $68 billion in sales would not have occurred?

Mr. HAUSER. Again, Senator, it's so imprecise that I would not say precisely but for, but I would say we believe we played a significant role in contributing to.

Senator BROWNBACK. OK. You mentioned Canadian and French investment in export promotion at the end of your testimony. Could you produce for us macro numbers on the increase in exports—their percent of export increase—over the past 5 years as they have increased their export promotion?

And here is what I am getting at. You're citing basically Western European industrialized country models as they have increased their investment in export promotion. Now, I am sure you would say, then, or I hope the data shows a concomitant increase in then in their export over and above what it would have normally been.

[1] The questions and responses of Mr. Hauser appears in the Appendix on page 00.]

I would like to see that compared to China's export promotion budget over the last 5 years and their increase in exports that they have taken place. I mean, have the Chinese gone like this, investment in export promotion? And is that the reason that they are getting increases in sales?

Because that really goes to the comments of an earlier panel, they said that basically this is a corporate welfare system in Western Europe and we would be hard pressed to follow that model.

I want to see what are the macro numbers associated with that. Because as you look at our own macro numbers, here, I was looking, 1993, total spending on Federal trade promotion, since 1993, total spending on Federal trade promotion has fallen by 45 percent, U.S. Government, while exports over the same period have risen by 21 percent.

And 13 percent better than the overall economy. So while we have been spending less on export promotion investment, our export sales have been going up.

I think most of us would think, now, this is more a function of overall economy, overall competitiveness of our businesses. You'd probably agree with that. Our businesses have been fighting hard lately, and you provide a valuable role for a number of businesses.

I've been in this business before. I was secretary of agriculture in Kansas. I've worked with people in export sales, internationally. I used to work at the U.S. Trade Representative's Office. I've been on the Ex-Im Bank Advisory Board for 2 years.

I've been in this and I've seen this. Still, my great suspicion is that if we gin up our economy and do things better here that we get far more in exports than if we invest another dollar in export promotions.

That's my great suspicion. And I would like to see macro numbers that dispute that, if you have those, or that support that—I would appreciate those as well.

Mr. HAUSER. Mr. Chairman, we'll take a look. Obviously as I mentioned we are in the initial throes of being able for the first time to catalogue what we're doing and looking at what the possible effects are.

Getting the data on foreign spending is something that we have been pursuing for several years. I will see what we have, but I fear we could not have a trend line that might be directly correlated to outputs.

But we will look at it, Senator, and get back to you.

Mr. HAUSER. Let me address another point, though. I think implicit in your statement, one, yes, obviously macro forces are a major determinant of export sales. Growth abroad, lack of growth abroad, opening of foreign markets, which is something we work on on the policy side, something you would remember from USTR.

The point is not that we're looking for more resources, given the current budget climate. The fact that our export spending has declined is very much a result of the current budget climate. We all realize there are constraints on what we're doing.

So what we're looking at is ways to work harder, work smarter at the margin to maximize what we get out of the limited money available for export promotion.

And it was a phrase the late Secretary Brown always used: to not do so would be unilateral disarmament, given what other governments are doing. One of the wry ironies of the U.S. having come up with a focused export strategy, we looked at what the competitors were doing.

We can't emulate them. There is not that kind of money. There are conflicting program priorities, but as we have become more aggressive, we set up an advocacy center, we opened some offices overseas that small businesses can use, all of a sudden, the Europeans are back looking at our owners manual.

If we can open an information center in China, the Europeans will come in and focus on one. They saw Ron Brown, Mickey Kantor taking trade missions, they've heightened their attention to it.

The bottom line is, and we'll try to quantify for you sir as best we can what they're doing. They are doing it and that is something, the involvement of other governments, that a firm on its own cannot counter. That is the legitimate role of government.

Senator BROWNBACK. Well, I am just asking are the Europeans the right model to follow, or are the Chinese the right model to follow.

And that is why I'm asking you for macro numbers. If at the same time that we have reduced our export promotion investment, the French and Canadians have increased their export promotion investment, I would like to see what their export sales have done during that same period of time relative to what ours did.

Mr. HAUSER. I would suspect, sir, and we will look at it, that there is probably not definable numbers with regard to what China is doing. Part of China's obvious export success in this fantastic growth is we have a fully open market. Their stuff is coming in. We are getting China to be our second largest trade deficit, an issue that my boss, Stu Eisenstat, raised when he was in China a couple of weeks ago, an issue the Vice President will take on.

The Chinese market is not open. There are tremendous restrictions, including the right to get in to try to trade there to begin with. So a lot is coming in. We want to level the playing field to ensure that we get our goods into China and enforce our agreements.

For example, last year we concluded the Intellectual Property Agreement, again because the Chinese were not living up to the terms of the previous agreement. So there are other factors contributing, Senator.

Senator BROWNBACK. I think the other factors are significant. And if you could provide a written response, I would appreciate your analysis as to which would do more for our exports, cutting capital gains in half and indexing them for inflation, or investing in export promotion. That would seem to me to be something the Department of Commerce would be very interested in analyzing.

If you have a macro analysis on that I'd love to see it.

So thank you very much. I do appreciate your time and your willingness to present. We are going to be taking a very hard look at this, and where we actually get the greatest yield for these dollars. I appreciate it very much.

Mr. HAUSER. We appreciate your interest, Mr. Chairman, and we would be pleased to work with you on it.

Senator BROWNBACK. Thank you very much. The hearing is adjourned.

[Whereupon, at 11:56 a.m. the Subcommittee was adjourned.]

APPENDIX

JOHN L. MICA
7TH DISTRICT, FLORIDA

Congress of the United States
House of Representatives
Washington, DC 20515–0907

THE HONORABLE JOHN L. MICA
Testimony before the Subcommittee on Government Management, Restructuring and the District of Columbia
March 20, 1997

Thank you for the opportunity to testify before your Subcommitte regarding reforming the Commerce Department. First, let me say that our trade promotion and assistance programs are at best a disorganized mess.

Clearly trade is critical to our economy. While the good news is that we are the world's largest exporter, the bad news is that compared on a country-by-country basis, in the last decade, the U.S. has lagged behind in exporting in nearly every category. **Our deepening trade deficit makes the issue of reorganizing our trade bureaucracy an urgent one.** Last year --the merchandise trade deficit reached a staggering $166.6 BILLION - the worst in our history. And this year, the deficit is headed toward $200 billion if we continue at the same rate. Our trade deficit has almost doubled, from $85 billion in 1992 to the current $167 billion.

Unfortunately we have depended and relied on a domestic market for trade while our international competitors have existed and survived only by competing in the most aggressive manner in foreign markets.

The United States federal government has 19 agencies dealing with dealing with trade with separate missions each going their own way. In this process we spend $3.2 billion of taxpayer dollars often in an uncoordinated and ineffective manner. We have a hodge podge of trade activities tacked on to various agencies over the years that must be reorganized. The Department of Commerce has become an unwieldy grab-bag of inefficient and unrelated programs, many of which are duplicative of programs or functions being done elsewhere in the Federal Government. Fox example, export licensing is currently conducted by four different agencies : the Departments of Commerce, State, Energy, and Defense. Couldn't all licensing be conducted by a single agency instead of creating this inherent competition and overlap between Departments? The General Accounting Office has said that the Department of Commerce suffers "the most complex web of divided authorities," sharing overlapping missions with over 71 different federal agencies.

I believe the American people want a smaller, more efficient and less expensive Federal government. Change at the Commerce Department is long overdue. Having headed up my own international trade consulting firm, I have come to the conclusion that the trade bureaucracy in our country must be reorganized. I have experienced firsthand the weaknesses of our trade bureaucracy.

The ideal solution would be a government-wide approach of combining our 19 agencies that deal with trade and export promotion, negotiations, finance, and assistance. We are currently spending about $3 billion on 150 trade programs. As the GAO has testified last year, these trade functions are scattered, duplicative, and uncoordinated. As a result, we have not assisted our small and medium sized businesses in the appropriate manner. Only a small percent of U.S. firms account for nearly all our foreign exports.

In order to compete in the international arena, small and medium sizied businesses need every bit of assistance and aid to succeed. The embassies of other nations have become trade and business centers.

The United States has twice the number of economic officers in its embassies gathering statistics than Foreign Commercial Service officers.

Our AID foreign aid give away programs have 16,000 full-time and contract employees while our commercial promotion operations abroad pale in numbers.

For example, with trade delegations and in visits I found in Moscow that the Foreign Commercial Service officers I could count on one hand, while AID had an entire building filled with hundreds of employees.

In 1995 when I led a trade delegation to Brataslava, in the capital of the emerging Slovak former eastern bloc nation, I found an AID office that exists which is larger than our embassy office with 1 part time U.S. Foreign Commercial Service officer commuting from Vienna.

To make matters worse and justify their existence, AID is now opening U.S. commercial offices with limited cooperation and coordination with our Foreign Commercial Service.

During my first year as a Member of Congress, I introduced legislation, which was cosponsored by Senator Roth, to bring all the trade functions together into a Department of Trade. I re-introduced similar legislation in the 104th Congress, and will be introducing another bill in the near future. The objectives of this legislation will be to:

- accomplish a comprehensive, government-wide consolidation of trade functions
- preserve the functions in the Department of Commerce that actually create exports and therefore jobs
- create a nucleus which will be able to more effectively coordinate our trade policy.

Ideally, we need one stop-one shop trade assistance and service for small, medium, and large business. Ideally they need current information on market opportunities, financing and contacts.

Ideally and minimally a communications link between our trade promotion offices, financial organizations and domestic trade offices is essential.

While large U.S. corporations are routinely linked around the world-- our U.S. trade offices and agencies fail to know what the left and right hand are doing at the same time.

U.S. businesses, small and large, should have instantaneous, updated information on trade, business and service opportunities around the globe.

With our proposed cutbacks and government restructuring, resources formerly used for the Agency for International Development (AID) should be blended into trade promotion and assistance. Fewer U.S. State Department personnel should be collecting statistics and more should be promoting trade and U.S. exports.

Again it is critical that we provide all Americans with the capability of competing in the international marketplace with the tools and resources to be successful.

Only then will the U.S. create jobs and opportunities for the future.

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March 20, 1997

Statement by Rep. Rick White

Before the Senate Committee on Governmental Affairs,

Subcommittee on Government Management, Restructuring and the District of Columbia

Mr. Chairman, members of the Committee, I would like to thank you for the opportunity to testify today. I believe today's hearing is an important step in establishing coordinated and effective trade policies throughout the federal government.

Expanding U.S. participation in international trade improves the general welfare of the country. By increasing demand for products and goods of U.S. firms, we create more American jobs, grow our economy, and improve our overall quality of life. The importance of foreign trade to our economic well being can not be emphasized enough.

Equally important are efforts to make the federal government smaller, more cost-effective, and more efficient. Today's hearing examines the intersection of these two issues. I commend the Committee for asking how can we make the trade functions of the federal government more focused, less duplicative, and more effective.

I had never run for public office prior to 1994, and after two years in Congress I have been frustrated by the number of jurisdictional disputes that exist in the federal government. We have jurisdictional fights in Congress between the different authorizing committees, between appropriators and authorizers, and between the House and the Senate. In the executive branch, we see jurisdictional disputes between departments, between agencies within departments, and between offices within agencies. This can result in bad public policy and a cumbersome and ineffective organizational structure. No private organization would be set-up in such a manner, nor would they allow such jurisdictional disputes to continue.

Nowhere is this more evident than in the trade functions of the federal government. Currently, trade programs are fragmented among 19 different agencies and over 100 different programs. The Department of Commerce (DOC), the subject of today's hearing, spends roughly 10 percent of the federal trade budget. The Departments of Agriculture, State, Defense, and the Treasury, in addition to the Office of the United States Trade Representative and several other independent agencies play a role in federal trade policy. Unfortunately, this organizational structure has resulted in inconsistent and conflicting policies, duplication of efforts, insufficient inter-agency coordination and has ultimately weakened U.S. trade leadership and hindered the ability of U.S. firms to compete. Past efforts to coordinate and consolidate our trade programs have been met with resistance in both the Congress and the executive branch.

It is imperative that we overcome these jurisdictional disputes and fundamentally reorganize the trade related activities of the federal government. In the last Congress, I introduced H.R. 4328, the Trade Modernization Act. This bill was similar to legislation sponsored by Rep. Mica and to provisions included in the Department of Commerce Dismantling Act. In short, the legislation strengthens and modernizes the trade functions of the federal government by consolidating the DOC trade functions, in a new United States Trade Administration, under the direction of the United States Trade Representative (USTR). By doing so, we will be in a position to better coordinate the development and implementation of U.S. trade policy. Eventually, I would like to see all of the governments trade programs place under the USTR.

Again, I commend the Committee for looking at ways to improve the trade functions of the federal government. I also thank the Committee for the opportunity to testify and look forward to answering your questions.

Law & Economics Center
School of Law

George Mason University

Statement of Professor William H. Lash, III
George Mason University School of Law
Before the United States Senate Committee on Governmental Affairs
Subcommittee on Government Management, Restructuring and the District of Columbia

March 20, 1997

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Mr. Chairman and members of the subcommittee, I thank you for the opportunity to appear before you today. My name is William H. Lash, III and I am Professor of International Trade Law and Director of the Law and Economics Center of George Mason University School of Law. I previously served as Counsel to The Chairman of the United States International Trade Commission. I am pleased to discuss the possible reform of the international trade role of the Department of Commerce.

The stated mission of the Department of Commerce is: "To promote job creation, economic growth, sustainable development, and improved living standards for all Americans". No one could disagree with these lofty and noble goals. However, the Department of Commerce, particularly its international trade functions have little to do with accomplishing these goals. The trade functions duplicate the efforts of other agencies, states and the private sector and engage in a massive wealth transfer while showing limited results.

According to Secretary Daley, the Department of Commerce "International Trade Administration (ITA) remains at the forefront of the Administration's efforts to boost the economy and support more high-wage, high-skilled jobs, by increasing the sales of American goods and services in the world marketplace.

Secretary Daley has stated that the department will "be focusing on Aggressive Export Promotion." "The Commerce Department, through the activities of the

International Trade Administration put $250 million into export promotion resulting in over $40 billion in overseas sales." "Advocacy for American exports is one of the prime responsibilities of the Commerce Department, and these efforts are paying off dramatically on behalf of the Nation's businesses and workers. Some $65 billion (including $38 billion in American content exports) were generated from our advocacy efforts in 1995 and 1996." [1]

Those are impressive claims made by the Department. But in the words of a popular film "Show me the Money!" Nineteen federal agencies have some role in promotion of U.S. exports. The Department of Commerce controls only 8 percent of total federal spending on trade promotion. Despite Secretary Daley's assertion that the Department of Commerce is at the forefront of trade promotion efforts, nearly 75% of export promotion expenditures are directed by the Department of Agriculture.

Regardless of ideology economists generally agree that it is virtually impossible to verify the claims of job creation made by the trade promotion efforts of the Department of Commerce. Even Robert Shapiro of the Progressive Policy Institute, and former economic advisor to Bill Clinton admits there is "no economics" to support

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[1] Prepared Statement of William M. Daley, Secretary of Commerce, Before the House Appropriations Committee, Commerce, Justice, State and Judiciary Subcommittee, March 11, 1997.

this argument. Shapiro correctly recognizes that what is going on is nothing more than a wealth transfer of taxpayer monies, "But that's at the expense of industries that don't have the clout. You're just shifting things around."[2]

American exports are competitive in global markets because of the productivity and ingenuity of American entrepreneurs and workers. It is insulting to the many successful large and small exporters who succeed without federally financed export assistance for the Department of Commerce to claim responsibility for their success. The fan rooting for his team while watching the game on television may take pride in the winning touchdown but he cannot be so delusional to think that his cheers helped the team win.

The International Trade Administration (ITA) is the home of the Big Emerging Market Initiative. The ITA according to the Secretary will "help find overseas distributors, refine an export strategy, set prices, find language interpreters, and refine their information needs."

It would appear from these statements that no one else is able to accomplish these Herculean tasks. Regional banks, consultants, attorneys and Chambers of Commerce are capable of filling this role quite ably and do so on a daily basis. Information

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[2]Spencer Abraham, "Downsizing Government: Eliminate the Commerce Department", Heritage Foundation Reports, July 26, 1995.

regarding trade leads are generated by industry groups and private news services. The ITA is competing unfairly with private sector service providers. At a time when even the poorest of our citizens are forced to become more self reliant, the Department of Commerce cannot continue to offer these needless subsidies.

The Department of Commerce International trade Administration has been touting the effectiveness of the National Export Strategy (N.E.S.) adopted three years ago. The N.E.S. targets specific countries designated as "Big Emerging Markets" for export penetration by a coordinated government-industrial campaign. These "BEMs" are Mexico, Argentina, Poland, Brazil, China, Indonesia, India, South Africa, South Korea and Turkey. The N.E.S. will identify specific "Big Emerging Sectors" (BESs) for American companies to target.[3] These targeted areas include aerospace, telecommunications, information technologies, environmental technology, medical equipment and infrastructure industries.[4]

Any focusing on BEMs and BESs should be properly done by market forces, without the all too visible hand of government intervention. These sectors may very well be the future for U.S. exports. But shouldn't the decision of their importance be made

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[3]Michael Richardson, Q&A: U.S. Sets Aggressive Strategy on Exports to Asia, International Herald Tribune, February 28, 1994.

[4]Id.

by businessmen and not bureaucrats? The government has no role in picking winners and losers in the global marketplace. As former GATT Director General Peter Sutherland notes "Once bureaucrats become involved in managing trade flows, the potential for misguided decisions rises greatly."[5]

Additionally, it is ridiculous for the Department of Commerce to behave as though the importance of these states was something only recently discovered. Between September 1992-September 1993 some 44 percent of the Eximbank loans, grants and loan guarantee were already being spent to support exports in these areas.[6] Does any self respecting American business person need the Department of Commerce to tell them that China, a market with a population of over 1 billion people and a rising per capita GNP is a "Big Emerging Market"? Other states on the N.E.S. list such as India and Indonesia boast respectively the world's second and third largest populations and similarly expanding economies. Basic familiarity with economics and politics would indicate that these are important countries for trade.

Furthermore, BEM states such as Indonesia and China are often at odds with the administration's foreign policy and human rights agenda. Targeting U.S. export support

[5]President Revives a Trade Weapon, New York Times, March 4, 1994 A-1.

[6]Bruce Stokes, Gearing Up for New Markets, The National Journal, January 22, 1994.

programs at politically volatile states, may be particularly unsound. Committing valuable resources to promote sales to a partner we may soon be hitting with trade sanctions is inherently risky and ill-advised.

The National Export strategy not only promotes subsidized loans and guarantees to support exports but also supports non-market and non-finance based considerations in the selection of loan recipients. The N.E.S. explicitly calls for promotion and special consideration to be given to environmental technologies exports. Under this plan the Department of Commerce would make export financing readily available to environmental technology firms and "identify suitable markets for U.S. environmental products."[7] This glaring attempt at industrial policy and managed trade empowers the government to select a designated sector for market development and subsidization.[8]

Page -6- Where some of the trade function of ITA is informational rather than export finance or other subsidies these functions can be performed by other agencies. For example, overseas commercial attaches should be detailed to the Department of State. These attaches currently report to the U.S. ambassador, an official of the State Department, not the Department of Commerce.

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[7] Supra at note 93.

[8] Administration Launches Effort to Promote Environmental Technologies Export, International Trade Reporter, Nov. 24, 1993.

Statement of Professor William H. Lash, III.

Also, many states have their own trade promotion activities, with offices in Europe, Latin America and the Pacific Rim. State governors and even mayors of large cities routinely travel abroad to promote the exports of their state. The Department of Commerce should not be competing with the states. As we seek to shrink big government and return power and decision making to the states, we should extend this model to export promotion.

The ITA also heralds its work as a guardian of United States firms suffering from unfair competition from foreign producers. By this I refer to the antidumping laws The Commerce Department is the designated "administering authority," and conducts an investigation to determine whether dumping is, or is likely to, take place. The International Trade Commission considers the question of injury. Commerce's role is to determine whether the imports subject to investigation are sold in the United States at less than "fair value." The role of the ITA is not conducive to a n atmosphere of trust and integrity in our administration of these complex laws. The Department of Commerce is not an independent agency like the International Trade Commission. The procedure by which Commerce gathers information in these investigations and calculates the dumping margin undermines the confidence of importers and our trading partners in our procedures. The bifurcated nature of these investigations can have no economically sound rational. The investigative functions can best be transferred to the

International Trade Commission. The importance of the calculation of the dumping margin is one of the most crucial steps of these investigations.

The calculation of dumping margins -- the extent to which goods in the United States are sold at less than fair value and the basis on which antidumping duties are assessed -- is one of the most technically complex procedures in international trade regulation. In any given case, a judgment on an accounting issue, or the Commerce Department's adoption of a particular approach to a calculation, can have a material impact on the size of the margin.

Other trade functions of the Department such as pursuing market access, implementation of the General Agreement on Tariffs and Trade (GATT)/ World Trade Organization (WTO) and monitoring multilateral trade agreements can be best handled by the United States Trade Representative (USTR). If the USTR is charged with negotiating these agreements, shouldn't implementation and monitoring of these agreements most properly be addressed by USTR?

The Department of Commerce, Bureau of Export Administration (BXA) safeguards our national security by monitoring and controlling the export of potentially dangerous "dual-use" technologies. However, BXA is not the lone arbiter on export control issues. The Department of State also has a voice, implementing the Arms Control Munitions Act.

Five years ago an interagency report prepared by the Departments of Commerce, State, Defense and Energy recognized the error of the decentralized control of export regulation. The interagency report recommended: "Consolidating these functions under the appropriate official will provide not only the proper oversight but also a more efficient and effective approach for tracking referred applications and examining export trends."[9]

If export controls are truly a matter of foreign policy, let the BXA join the Department of State and let there finally be one voice on export regulation. If Congress believes that export controls are a matter of national security, let BXA and the arms control functions of the State Department be jointly transferred to the Department of Defense. BXA will have responsibility for export controls under the Chemical Weapons Convention if ratified by the Senate. As a major new initiative to promote national security, this role would seem more properly located in the Department of Defense.

CONCLUSION

A plurality of exporters polled by the United States Chamber of Commerce indicated that they had sen no changes in export markets due to the administrations

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[9]The Federal Government's Export Licensing Process for Munitions and Dual-Use Commodities, Special Interagency Review Conducted by the Offices of Inspector General at the U.S. Departments of Commerce, Defense, Energy, and State, September 1993, p. 3.

export policies. Export promotion activities cannot be the dispositive factor in export success. Interest rates, currency rates and infrastructure are far more significant in determining export success. A report by the Congressional Research Service similarly concludes that "U.S. economic policy and the domestic supply and demand of capital will continue to determine the level of trade and employment in the economy.[10]

To boost exports, government relaxation of onerous, Cold War export regulations will be far more successful and far less expensive than relying on government trade promotion. An estimated $30 billion in increased exports is expected when export regulations on certain computer equipment is relaxed. Billions more in exports are expected when telecommunication sales are similarly eased.

The USTR should become the final voice in trade policy, charged with negotiation of trade agreements and defending the rights of United States firms by monitoring these agreements and bringing disputes before the WTO. The International Trade Commission should be charged with the full implementation of the unfair trade laws, including all investigative procedures.

Export promotion activities, be they advocacy, financial subsidies or informational should be left to the states or the private sector. And finally this notion

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[10]James K. Jackson, "The Export-Import Bank: Background and Current Policy Issues", CRS Report for Congress, March 6, 1995, P.CRS-5.

that the Department of Commerce promotes global markets and that we are engaged in a national market war should be relegated to the historic scrap heap.

TESTIMONY
Dr. Edward L. Hudgins
Director of Regulatory Studies
Cato Institute

U.S. Senate
Government Affairs Committee
Trade and the Commerce Department
March 20, 1997

I appreciate the opportunity to testify today on the future of the U.S. Department of Commerce and its trade functions. To determine the proper role of the Commerce Department in trade matters, it is first necessary to ask what are the proper government functions concerning trade.

Two Systems

We see in the world today two systems and two ways to manage economic affairs. One is the approach of Western Europe, Japan, and to a lesser extent the United States, an approach in which governments manage trade and directly help industries. This approach is a dismal failure. The Western industrialized countries are experiencing a slow-motion, and thus more far peaceful, version of what transpired in the communist world. Some supporters have wanted to make the U.S. Commerce Department into an American version of Japan's Ministry of International Trade and Industry (MITI) or the European equivalent.

The other approach is the free market one that tends to be more the approach in the United States. If this approach informs our policies, most of the Commerce Department should be dismantled.

Principles and Trade

The trade barriers erected by the U.S. government limit the economic liberty of Americans to dispose of their property as they see fit, specifically, their freedom to purchase goods from the citizens of other countries. This freedom should be restored to Americans whether other countries maintain restrictions on the liberty of their citizens or not.

But it would be even more advantageous for the governments of other countries to remove their trade barriers as well. This would maximize freedom for Americans and prosperity for citizens in all countries.

Further, it is the principal function of government to protect the life, liberty and property of this country's citizens in the territory of the United States. It becomes much more problematic to protect Americans or their property overseas. But this is still a legitimate concern.

The Government's Role in Trade

Opening markets. In light of these principles it is therefore appropriate for the U.S. government to maintain an office to negotiate market opening with other countries. This is currently the function of the Office of the U.S. Trade Representative (USTR).

Trade figures. It can also be argued that to exercise this function the government must keep trade figures. I grudgingly accept that this is sometimes necessary. For example, information on the trade barriers of other countries is the starting point for U.S. government market opening efforts.

But trade figures are some of the most misunderstood, abused are often inaccurate. For example, whenever trade figures are released, grave TV news anchors often inform us--in tones usually reserved for airline crashes-- that the American trade deficit rose.

Nearly all individuals run trade deficits with their grocery stores. The stores purchase nothing from their customers. The customers receives the products and the store receives the money. The customers do not view that "deficit" as a problem. It is no more of a problem in international transactions.

From an economic perspective, a trade deficit in and of itself is neither good nor bad. It simply means that in a given year the citizens of one country purchased more goods and services than they sold overseas. A deficit might result because the economy and purchasing power of consumers in one country grew faster than in others. That would be a sign of economic strength. Or a deficit might result, for a short period, because a country inflated its currency. That would be a sign of unsound policies. So there might actually be advantages to not keeping trade figures.

I also note that trade figures are often inaccurate. For example, in theory all of the trade deficits and trade surpluses in the world should net out to zero. They do not even come close. I recall in the 1980s during the debate over the U.S.-Canada free trade area, a corrected set of trade figures added about $10 billion to trade between these two countries. If The United States has errors like that with its largest trading partner, one wonders what they are like with other countries.

Trade promotion. The U.S. government, in part through the Commerce Department, promotes America exports directly. But this should be a private sector not a government function. The best way to describe this spending is corporate pork.

American trade barriers. America also maintains trade barriers. Some of these are tariffs. Others are non-tariff quota-type barriers, such as restrictions on textiles.

Further the U.S. government maintains antidumping laws that are perhaps this country's most insidious form of protectionism. There is no economic basic for excluding from the American market products that are sold for what bureaucrats define as an inappropriate price. The formulae by which dumping is determined are based on political concerns. They were drawn up to make it easier for American businesses to restrict products from the American market.

These protectionist functions are primarily the responsibility of the Commerce Department. And the Commerce Department is often the target of businesses and sectors seeking special protection for their protects.

Protecting property. Producers in foreign countries do sometimes use American patents and copyrights without authorization of the owners. This is a matter for the U.S. government, for example, to restrict the entry of counterfeit products into the American market. But it should be realized that as much as the U.S. government presses the governments of other countries to crack down on such activities, this is difficult and could endanger American export markets. Ultimately, as less developed countries establish the rule of law, property rights and independent judicial system to protect their own citizens, the property rights of Americans will be better protected.

The Managed Trade Danger.

Over the past decade a new danger to free trade has arisen that centers on the Commerce Department. Government intervention to manage trade in the name of opening foreign markets represent the flip side of the more conventional protectionist coin. Managed trade can involve the government of a country limiting the exports of its enterprises to the United States or even to third countries under pressure from U.S. officials. It can involve a country's government "guaranteeing" a percentage of its market to American exporters. Or managed trade can take the form of a government agreeing to change its regulatory regime in a way that harms its own enterprises, to give American firms a competitive advantage. In all of these cases we trade determined by bureaucrats, not by buyers and sellers.

Political Corruption

Corruption, a problem thought by some to be confined, in its most serious forms, to less developed countries, as become one of the most serious problems in the industrialized, democratic countries as well. Recent scandals concerning the Commerce Department appear to involve straightout shakedowns by Commerce officials of foreign enterprises. This is not surprising. It is the nature of the system. To understand the current situation, it is necessary to distinguish two forms of corruption:

Classical Corruption. This occurs when an elected official or government bureaucrat wields political power for personal gain contrary to the explicit letter of the law. Diverting government funds into his personal bank account is an obvious example. Or an official might expedite a license for a businessman while making others wait. Or one might offer an undeserved government contract or overlook some legal indiscretion. In exchange the state official might receive cash, a sweetheart business deal, a paid vacation or some other gratuity.

Institutional Corruption. More destructive of civil society is the form of corruption inherent in the welfare state. By its nature a welfare state breaks down the separation of between government and the private sector and thus, between political and economic power. Government is expected to act directly to help this industry or that sector. The public good becomes in fact simply interest-group driven policy. This means that policies are often arbitrary and contradictory. In essence, the rule of law gradually gives way to the rule of particular powerful men and interest groups.

Policy makers, in exchange for the largess they bestow on privileged groups, receive large salaries and offices, expense accounts and free travel. But most important, they receive power to determine the economic fate of businesses and individuals, they receive prestige for being "friends of the people," and they receive political support to continue in their positions.

Welfare states remain formally democratic but in operation are oligarchical or even feudal, without real constitutional checks on government power. Politicians might make superficial reforms in response to public outrage at abuses of power, but they never limit their own power.

The Commerce Department seems to be an agency deeply mired in these sorts of problems.

Lessons for Reorganization

What, then, do these observations tell us about reorganization? First, it is best to keep the market-opening functions now performed by the USTR insulated from the protectionist functions performed by Commerce. If the same agencies or even individuals asking a government to remove non-tariff barriers to American exports is also asking that government to force its producers to limit their sales in the United States, the U.S. government will reduce its credibility and effectiveness.

Further, Congress should revisit American protectionism and consider erasing antidumping laws. These laws not only restrict the freedom of Americans to dispose of their own property, they also limit the credibility of American negotiators seeking to open other markets.

Since many of the Commerce Department's trade functions are not in the country's best interest, they should be reduced or eliminated. In all cases we must avoid creating an American version of Japan's MITI. This approach is a proven failure. Deregulation and restoring economic freedom is the best path to prosperity.

TESTIMONY OF

EDWARD J. BLACK, PRESIDENT

ON BEHALF OF THE

COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION

BEFORE THE

SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, RESTRUCTURING, AND THE DISTRICT OF COLUMBIA

REGARDING

"The Role of the Department of Commerce in United States Trade Policy, Promotion and Regulation, and Opportunities for Reform and Consolidation"

March 20, 1997

Mr. Chairman, Members of the Committee, I appreciate the opportunity to testify today on the functions and programs of the Commerce Department. The Computer & Communications Industry Association (CCIA) is a trade association whose member companies are drawn from all sectors of the computer and communications industry. Our members range in size from small entrepreneurial firms to many of the largest in the industry and are represented in CCIA at the CEO and senior executive level. Collectively, CCIA members generate annual revenues of nearly $200 billion and employ well over a million people.

OVERALL PERSPECTIVE

CCIA is well suited to address this issue. Throughout the 25-year life of the Association, we and our member companies have had numerous dealings with many different parts of the Department, and with numerous Secretaries of Commerce. From our experience, Commerce is the single federal department focused on economic growth and committed to business success. Now more than ever before, our overseas competitors are pulling out all the stops to exploit export opportunities. The United States must be equally aggressive in helping our businesses and workers respond to the challenges of the global economy. The Commerce Department is an important tool in keeping the playing field level so U.S. companies can compete fairly.

Certainly, as with any government agency, Commerce is not a perfect organization. When the Department pursued policies we did not support, we have not shied away from criticizing the Department and pointing out the need for improvement. Through constructive criticism, we have sought to make Commerce stronger, into a Department that is both more useful for business as well as more effective in implementing government policy.

For years, the business community has argued that government should be a better advocate for U.S. business in the international marketplace; that it ought to promote technologies which would keep America a step ahead of its competitors; that the private sector perspective should be brought to the export licensing process; and that the knowledge which government officials had of overseas markets should be shared in order to increase U.S. exports. Today, the Department of Commerce is doing these things and, for the most part, doing them very well.

We do not come here today committed to the status quo. We are more than willing to engage in a serious discussion of ways to restructure, reorganize, and improve government trade functions, including those in the Commerce Department. However, we must be careful that these decisions are not guided principally by political factors. Any meaningful reorganization efforts must be undertaken in conjunction with a broad and thoughtful review of the inter-related programs scattered throughout government.

We strongly support the overall effort to streamline government, to consolidate or eliminate duplicative and unnecessary programs, and to get control of the budget deficit and the overall debt. But we do not support haphazard restructuring. What is important is that the nation's vital business get done, and as effectively and efficiently as possible. We are very wary of hasty decisions that could result in various "penny-wise, pound-foolish" scenarios.

There is substantial evidence to demonstrate that the Department Commerce is working effectively and that many of its trade functions are essential to a constructive federal government role. Commerce's market research, as provided by its export promotion programs, has helped thousands of small firms break into foreign markets; the Trade Information Center has helped companies identify resources throughout the federal government that address their specific questions and needs; and the expertise provided by the Department's industry and country specialists have helped the U.S. Trade

Representative negotiate complex trade agreements. These and other efforts of the Commerce Department provide an invaluable service, not only to industry, but to the entire nation.

In many areas, government can benefit by following the example of the private sector, especially with regard to cutting costs, eliminating waste, and improving efficiency. Government can also learn the foolishness of undermining those aspects of its operations that actually work well. Government and business alike need to support those factors which will lead to greater long-term effectiveness.

We also want to point out important distinctions between restructuring a company and restructuring our government. Downsizing and restructuring are different, and have different significance, for government than for business. It is true that both run programs and deliver products or services. But government is different in its responsibility for making policies and decisions that affect the lives of millions of people and thus, at least in our representative democracy, has the responsibility to ensure that its citizens' various interests are taken into account. The structure of government is an important way to do so. There is no perfect way to organize government, but the structure of government does have a tremendous impact on government actions and outcomes.

One way to organize American government is to structure it to take account of those values most important to who we are as a nation and to make certain that consideration is kept in the forefront as important decisions are made. So we ask: What is America about? It's about a number of core things: freedom, security, justice, limited government, and opportunity. It's also about the strength and vitality of our economy. The private sector of this country is a dynamo for growth unprecedented in the annals of world history. When we go to reorganize our government, it would be wise to ensure that each of our core values is recognized and understood, and where possible, institutionalized.

When, therefore, I and others indicate our desire for a powerful cabinet-level agency--competent, knowledgeable, and empathetic, if not always sympathetic, to the realities and problems faced by America's businesses--I urge you to realize that it is not just special pleading. It is a desire to have a top-level entity to help prevent public sector excesses from trampling, through ignorance or by design, on those factors which enable our economic system to flourish. Structuring government to ensure domestic economic health and preserve the competitiveness of American businesses are both logical and essential. Especially in a globally competitive world, the United States must maintain those activities that allow the private sector to compete fairly and equitably in the world.

COMMENTS ON TRADE-RELATED PROGRAMS AND INITIATIVES WITHIN COMMERCE

Exporting today involves more than simply selling a product or service at a competitive price. Often, it involves selling to a foreign government and dealing with complex regulations. Or it might mean competing against a foreign company that has the backing of its own government. The Department of Commerce, as leader of the Trade Policy Coordinating Committee, harnesses the resources and authority of the U.S. government to counter unfair treatment by foreign government decision-makers, cut through bureaucratic red-tape abroad, and counter-balance some forms of assistance received by foreign firms from their home governments.

International trade is an increasingly important aspect of our economy and needs to be an area where government functions are well coordinated. There are significant linkages and synergies which result from the various international trade programs when they work closely together. The U.S. Commercial Service, the Market Access and Compliance programs, the Import Administration, as well as the Bureau of Export Administration, should be the core of the government's activities in this area. While we have been wary of too great a government role in these arenas, there are important stimulative and catalytic roles which government can and should play. These agencies are among the very few places in government where an understanding of our industry and technology exists at anything but the most superficial level.

A primary responsibility of the Department of Commerce has been to advocate for U.S. exports and represent business interests at the Cabinet table. It is critical to stress that the cabinet-level Office of the Secretary has been of immense value to the business community and to the nation. All of our major trading partners have their own counterparts to the Commerce Secretary. Their main purpose is to further their own nation's business interests in the global marketplace. Without a Cabinet-level Department of Commerce, the voice of U.S. business would certainly be lower, if not lost.

Secretaries of Commerce have had a seat at the table when other agencies considered policies, particularly regarding export controls, that could have a highly negative impact on the private sector. It is invaluable that there be someone "at the table" who appreciates the concerns and complexities of the private sector. I would hope that this Congress, at least as much as any before it, has sufficient wariness of federal power, and respect for the private sector, to ensure that decisions impacting our economic engine are not made in isolation. A broad-based cabinet-level agency is thus essential.

The Department of Commerce makes generating international business for U.S. companies a top priority. Trade missions led by past Secretaries have helped U.S. firms capture growing business opportunities abroad in the face of fierce foreign competition. One example of how helpful these trade missions can be involves SBC Communications, Inc., one of CCIA's member companies. In 1994, SBC participated in a trade mission to South Africa, led by the Department's Office of Telecommunications, to learn about opportunities in the South African market. SBC has since pursued an active role in the development of the telecommunications market there, including the successful investment in a major South African cellular service provider, Mobile Telephone Networks. By helping to develop overseas markets in this way, the Department is laying the groundwork for future U.S. exports, jobs, and the continued strength of the U.S. economy.

I should mention here that I fully support Secretary Daley's initiative to wipe out any perception of political favoritism in the selection process for trade missions. Our trade missions, or for that matter, any export promotion programs our government operates, are not the place to be playing politics. The Secretary's new guidelines should put to rest the perceptions, whether justified or not, that the Departments trade missions are tainted.

The Commerce Department has staff devoted solely to helping U.S. companies export. Government advocacy efforts, coordinated by the Department of Commerce, have resulted in billions of dollars of U.S. exports and thousands of jobs for American workers. Another specific example from among CCIA's members involves NORTEL. In January 1996, NORTEL signed a $14 million contract to expand the telecommunications infrastructure in Haiti. Facing stiff competition from foreign telecommunications firms, NORTEL requested advocacy support from the U.S. government, and during a business development mission to Haiti in 1995, officials from the Commerce and State Departments advocated on NORTEL's behalf. All of the equipment involved in the resulting contract will be manufactured in NORTEL's plant in North Carolina, supporting an estimated 238 jobs.

I am generally aware of proposals to reorganize the International Trade Administration which are aimed at making the organization even more streamlined and efficient, and there certainly seem to be some positive goals and suggestions there. I am especially pleased to hear that priority would be given to reaching out to this country's smaller companies. This is an important effort, which has been in need of improvement for some time. We need to raise awareness among smaller firms of the valuable services which the Department offers, and which larger companies have been aware of for years. Enhancing the network of domestic and overseas field offices, which have already helped many small firms identify export markets, conduct market research, and develop strategies to exploit new opportunities abroad, is certainly worth serious consideration. These are necessary tasks which many small firms do not have the resources to conduct on their own.

Increasing the involvement of the other TPCC agencies in the activities of the Advocacy Center, particularly in combating transnational bribery, is also a solid suggestion. Whereas American firms have been forbidden from paying bribes to foreign officials since 1977, few other countries impose similar restrictions. This Administration deserves credit for raising awareness of this problem and for the progress that has already been made in multilateral discussions.

We are also encouraged to learn that the renamed Market Access and Compliance unit has refocused its goals and functions to concentrate on identifying existing and potential market access problems. I understand that the new Trade Compliance Center will be up and running shortly, with the goal of enabling the Department to monitor foreign compliance with the agreements which the United States already has in force. While many resources have gone into negotiating new trade agreements, there has been a pressing need to follow-up on what has already been accomplished. The development a comprehensive database of agreements, as well as quantitative means of measuring compliance, would enable us in the private sector to take full advantage of market-opening agreements.

CONCLUSION

In today's globally competitive marketplace, the need for tight coordination and focused targeting of our scarce export promotion resources has never been greater. Indeed, through the Trade

Promotion Coordinating Committee, coordination among our agencies has substantially improved. This has resulted in a noticeable improvement in the quality of services that the agencies provide, and has paid off in the form of greater market access overseas for U.S. companies.

Improving, streamlining, and cutting programs may all be achievable, but at the same time, we should be wary of tampering with highly beneficial programs that are necessary and successful. As we look for ways to consolidate programs, it is important to realize that the different agencies involved in trade policy have different missions: the Export-Import Bank does not do what the Overseas Private Investment Corporation does and the State Department does not perform the same function as the Small Business Administration. While there may indeed be room for consolidation, we would need to make sure the actual savings is worth the upheaval.

In fact, we believe that the main problem with the government's export promotion activities is not the number of programs or agencies, but the way that scarce resources are presently being allocated. For example, the General Accounting Office has repeatedly asserted that a disproportionate percentage of export promotion dollars go to the Department of Agriculture. This misallocation of resources has been a primary factor in the failure of the TPCC to develop a unified budget, and has hindered efforts to increase interagency coordination.

**STATEMENT OF TIMOTHY J. HAUSER
DEPUTY UNDER SECRETARY FOR INTERNATIONAL TRADE
U.S. DEPARTMENT OF COMMERCE
BEFORE THE SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
REFORM, AND THE DISTRICT OF COLUMBIA
UNITED STATES SENATE
March 20, 1997**

Mr. Chairman and distinguished members of the Subcommittee, it is my pleasure to be here today to discuss how the Federal government is organized to help American firms and workers compete and win in an increasingly competitive global marketplace.

In particular, I appreciate the opportunity to discuss with you the Commerce Department's efforts -- led by the International Trade Administration -- to ensure that the entire Federal government is moving in lock-step to benefit U.S. exporters.

Exporting is Critical to U.S. Economic Growth and our Standard of Living

This Administration has made it a top priority to leverage Federal resources and focus our capabilities to help U.S. firms -- both small and large -- take full advantage of business opportunities overseas. Exporting is not only important to the U.S., it is critical to our long-term economic growth.

Moreover, we believe at the Commerce Department that it is an inescapable truth that globalization and interdependence are here to stay -- and that we must help American firms and workers take full advantage of the tremendous opportunities this global economy presents. The engine of U.S. economic growth has shifted over the last 30 years from almost sole reliance on the domestic market to international markets as economic globalization and interdependence continue to broaden and deepen. Let me take a moment to share with you some facts:

-- In 1970, the value of trade equaled just about 11 percent of America's GDP. Today it is estimated at almost 25 percent.

-- in 1996, over 11 million jobs depended upon exports, and by the year 2000 that number could rise to nearly 16 million:

-- over the past four years, exports have accounted for one-third of total U.S. economic growth with export-related jobs growing several times faster than total employment;

-- and export-related jobs pay 13 to 18 percent more than average U.S. wages.

The conclusion is clear: the more we shift into globally competitive sectors where exports are part of the picture, the more we will increase our own standard of living. Exports are now fundamental to the health of the U.S. economy.

The International Trade Administration: Promoting American Exports

Our goal at the International Trade Administration (ITA) is to help American companies -- particularly small and medium-sized firms -- build and expand upon this tremendous growth. ITA is composed of four integral parts: the Commercial Service of the United States, Trade Development (TD); Market Access and Compliance (MAC); and the Import Administration (IA). These four agencies work together to provide comprehensive market information and export promotion services to the business community while also guaranteeing a level playing field for businesses at home.

- The Commercial Service, which consists of 83 offices across the United States and 134 offices in 70 countries around the world, delivers ITA's programs and services directly to the business community where they need them the most: in their office at home and in their export markets of choice.

- The Trade Development (TD) unit provides market research and expertise focused on specific industry sectors and works closely with trade associations to ensure that ITA's programs effectively address the needs of the business community. With its Trade Information Center and its Advocacy Center, TD also serves as the gateway to a wide array of government export assistance programs.

- The Market Access and Compliance (MAC) unit directs our trade policy and business counseling efforts on a country and regional basis. MAC's mission is simple: to ensure market access for American firms and workers and to ensure we obtain the results from our trade agreements, 200 of which have been negotiated by this Administration alone. To heighten this focus, we recently created a Trade Compliance Center that will work hand-in-glove with our colleagues at the Office of the U.S. Trade Representative to ensure we are getting full benefit from these trade agreements.

- The Import Administration (IA), provides the essential service of enforcing our antidumping and countervailing duty laws. By doing so, IA defends the level playing field for American businesses.

The overwhelming majority of ITA's work benefits small and medium-sized companies trying to make their first overseas sale -- this translates into helping thousands of companies break into new export markets every year. Let me take a moment to tell you the story of several companies that have benefitted from our unique assistance:

-- **Carrier Vibrating Equipment, Inc.**, a Louisville, Kentucky-based small manufacturer of vibrating conveyor systems, has seen its exports grow form 10 percent to 30 percent of total sales since 1990 as a result of aggressive marketing and direct assistance form ITA's Louisville office. With growing sales in South Korea, China, India and other Pacific Rim countries, the 100 employee company plans to add 15-20 new workers to its payroll.

-- **FCX Systems, Inc.**, a Morgantown, West Virginia manufacturer of frequency converters used in a variety of applications, but primarily used to power jet airplanes. Company officials met with Wheeling Export Assistance Center trade specialists in February 1996 to identify possible export markets. After conducting extensive market research, the EAC staff contacted the Commercial Section in the American Embassy in New Delhi to help FCX break into the Indian market. As a direct result of this assistance, FCX sold five units worth $200,000 into India by July 1996. Says FCX President and Chairman of the Board, Don Gallion: "FCX tried on several occasions to enter the Indian market and was getting nowhere. The Wheeling EAC provided us a winning combination of contacts in and information on India that has made our first sale into India a reality."

-- **Business Communications Management (BCM)**, Inc., based in Lake Oswego, Oregon, had advertised for distributors for its discount overseas calling card through Commerce's Commercial News USA in February 1996. In only one month, BCM had entered into a partnership with Construction Marketing Services (CMS) of Surrey, England, to act as its U.K. agent and distributor. BCM has said that its ads in Commercial News USA gave its product legitimacy and credence in the world market, with sales to CMS in England increasing every month.

-- **Bricmont Contractors, Inc.**, of Murray, Pennsylvania, is a small manufacturer of industrial furnaces. Bricmont first tapped the resources of the Commerce Department in 1992 when it was attempting to bid on a $10 million project in Mexico. The Mexican company required financing, and Bricmont's competitors --the Germans, Italians and the French -- were all assured financing. Working with Commerce, Bricmont was able to secure the necessary financing through the Ex-Im Bank and TDA was able to provide a $100,000 training grant to assist Bricmont's bid. Bricmont has since worked with Commerce and other agencies to win $10 million worth of other contracts in Korea and India. " We would be half our size instead of growing if we hadn't set our sights on foreign markets," said Leon Kalusa, general manager.

Working Together Through the TPCC

Of course, we do not do all of this work in a vacuum. To help ensure that the entire Federal government is working together to promote U.S. exports, Congress through the Export

Enhancement Act of 1992, created the interagency Trade Promotion Coordinating Committee (TPCC), giving it the mandate to coordinate Federal export promotion efforts. In response, we developed -- at President Clinton's direction -- the National Export Strategy, our nation's blueprint to increase jobs and economic growth through exports.

The President's export team, the Trade Promotion Coordinating Committee (TPCC) is a unique institution. Where else in the Federal government do representatives from so many different agencies work so closely together -- checking their agency affiliations at the door -- to develop short and long term trade promotion strategies to help ensure that U.S. firms can compete and win in the global economy? Since its inception in 1993, the TPCC, chaired by the Secretary of Commerce, has streamlined, simplified, and coordinated Federal export promotion programs to the benefit of U.S. exporters -- particularly small and medium-sized firms. The TPCC is now a fully integrated team, ensuring that the expertise of every Federal agency involved in international trade is focused through the lens of the National Export Strategy.

But it wasn't always like this. When the TPCC was launched in January of 1993, we were confronted with an array of problems and complaints from the private sector, caused by an unfocused and uncoordinated Federal trade promotion program. We heard horror stories from potential exporters about having to go to several different government offices located in different parts of the same city just to get basic export information or assistance -- and getting different stories. We heard from industry that they were faced with obstacles that were impeding the ability of American firms to compete on an equal footing with their European or Japanese competitors -- leading to lost contracts and follow-on sales. We heard how U.S. businesses were being disadvantaged because of the use of trade distorting tied aid or other forms of political and economic pressure often employed by our trading partners -- leading to the loss of billions in potential contracts. We were told how U.S. firms, particularly small and medium-sized companies, could not fill orders from overseas for their products because they found it difficult if not impossible to secure the necessary financing -- so they gave up altogether.

The National Export Strategy

To meet these challenges and to directly address these shortcomings, the TPCC agencies began by taking a hard look at what we did and -- in the spirit of government reinvention -- asked how we could do it better.

During our first year, the TPCC developed 65 recommendations to streamline and strengthen government promotion and finance programs, and remove government-imposed obstacles to exporting. Over the past few years, the TPCC followed through with implementation of the recommendations and began to develop a strategic focus with regional trade promotion strategies like the Big Emerging Market program. We have continually honed our efforts -- providing advocacy support to ensure that U.S. firms get a fair hearing as they bid for projects overseas. At the same time, we have worked diligently to help small businesses gain better access to critical trade finance and break into overseas markets.

Significant milestones in the development of the National Export Strategy are:

- ***Reducing potentially trade distorting Tied Aid*** offers by almost $5 billion annually;

- ***Significantly liberalizing outdated export controls on high technology products***, freeing approximately $42 billion in exports from licensing requirements, while still effectively protecting our national security;

- ***Creating an Advocacy Center*** and interagency Advocacy Network to help U.S. firms win overseas contracts, providing support for over 300 projects with a total estimated export value of more than $50 billion.

- ***Completing a national network of 19 U.S. Export Assistance Centers (USEACs)*** providing one-stop shopping for U.S. exporters in need of export counseling and finance assistance. Last year, the USEACs helped with a total of 8,177 "export actions" -- helping almost 4000 different U.S. firms realize new and expanded export sales.

- ***Helping Small and Medium-Sized Firms:*** We have developed some new tools, to be implemented by Ex-Im Bank and SBA, to increase access to trade finance for small and medium-sized firms.

- ***Having in place a transparent, cross-cutting Federal export promotion budget*** since 1994. We are far ahead of our foreign competitors (and other USG agencies) in this regard. Preliminary estimates suggest that we have assisted about $68 billion in exports with an overall expenditure of about $3 billion.

We expect to meet our ambitious objective of generating $1.2 trillion in exports by the year 2000 and combined with a number of ongoing initiatives like our programs to increase U.S. **environmental technologies exports**; our efforts to improve U.S. exporter access to **untied aid**; deepening our focus on the export potential of the **Big Emerging Market** countries and the development of market-based economies around the world; and continuing to provide the latest **commercial information** to America's exporters. Through all of these efforts we fully expect that the National Export Strategy will continue to yield impressive results.

Implementing our Agenda

But there is an even broader challenge. Last October, the TPCC transmitted its fourth annual report to Congress entitled ***Toward the Next American Century: A U.S. Strategic Response to Foreign Competitive Practices.*** The Strategy responds to one of our greatest problems in world markets -- practices our competitors use to succeed in the world's fastest growing economies -- setting out the first government-wide plan to address critical issues affecting the ability of U.S. industry to obtain market access. **One prime example is transnational bribery.** Since 1994, we estimate that bribery has been used by foreign firms in 139 international commercial contracts valued at $64 billion. We estimate U.S. firms lost 36 of these contracts, valued at approximately $11 billion. **Commercial standards** is another area where our trading partners gain competitive advantage for their exports by forcing the adoption of their national standards; **technical assistance** where we need to do more to help U.S. firms get in on the ground floor in emerging economies; and **defense offsets** that will move us toward bilateral and multilateral negotiations to limit these practices. One conclusion we draw is that the use of these practices is far more widespread than previously known, and that they will likely intensify in the future as the emerging markets shift their development into high gear, leading to intensified competition among firms in the industrialized countries for an estimated $1 trillion in large-scale capital projects.

Through the TPCC we have developed a comprehensive, U.S. government-wide policy response to counter these foreign competitive tactics. Clearly, if these questionable practices continue to go unchallenged they will severely handicap the competitive position of U.S. companies and workers as we approach the next century. We believe that our plan will spur other nations to see the logic of greater disciplines and rules for the use of export credits, foreign aid for commercial gain, and other non-market means of winning contracts. While this achievement is some distance away, the agencies of the TPCC now have underway a concerted effort to create a new regime of conduct that will ensure fair, open and transparent international competition for all.

We are also moving ahead with our efforts to dramatically increase the availability of trade finance for small businesses. Last year Ex-Im Bank and SBA launched two new initiatives to address the unavailability of trade finance for small businesses attempting to export. SBA's program will enable small community banks without in-house international trade finance expertise to expand the short term credit available to small business exporters, while Ex-Im Bank's program modeled after the home mortgage market will improve export trade receivable financing. Both initiatives have been designed and the agencies are moving ahead with implementation.

But There is More That We Can Do

Our competitors are investing more and more of their resources to help their firms succeed in these critical markets. In 1995, as a proportion of GDP, the U.S. spent three cents per thousand dollars, while France spent 18 cents and Canada 33 cents per thousand dollars of GDP, on their non-financing export promotion budgets. And when you compare export promotion staffing levels -- the numbers of trade specialists our competitors field to help their domestic firms compete overseas -- the U.S. ranks way behind most of our trading partners. This is the case regarding financing as well. For instance, all our industrial country competitors have, and heavily utilize, official export credit agencies (ECAs). These agencies are prepared to offer aggressively official financing to support their exporters' bids. For example, Japan's Ex-Im

Bank supports almost 40 percent of total Japanese exports. France, Spain and Canada support 19, 11 and 5 percent of their national exports respectively. Our Ex-Im Bank, by contrast, supports around 3 percent of U.S. exports and ranks seventh out of the seven top ECAs in terms of percentage of national exports supported.

Although the agencies of the TPCC work closely together on a continuing basis to hone our trade promotion and finance programs, we are constantly aware of the challenges we face from abroad and that we must work harder to meet the needs of the exporting community.

Currently, the TPCC is engaged in looking for new ways that our trade finance agencies can further streamline and harmonize their programs. In fact, just this past January, the Administration entertained a proposal that called for the consolidation of the Ex-Im Bank, OPIC and TDA. After much consideration and consultation with the private sector, the Administration decided not to pursue the proposal. Instead, agencies agreed that the TPCC could address the issues raised by the proposal and was tasked to develop a set of recommendations which would increase coordination and improve the services of these agencies. Under the leadership of Secretary Daley and Under Secretary Eizenstat, the TPCC agencies are in the process of developing these possible steps, and we value the advice of Congress in this regard.

Conclusion

Mr. Chairman, by working together through the TPCC, the trade agencies of the Federal government have much to be proud of. Over the past few years I have seen the TPCC evolve to become an extremely effective mechanism. The TPCC continues to streamline and improve services while developing new governmentwide strategies to meet emerging commercial policy issues. Over the next year, under Secretary Daley's leadership, we will redouble our efforts to improve coordination of the TPCC and develop proactive strategies in key markets abroad; advocate aggressively to ensure a level playing field for U.S. firms competing overseas and help to provide the tools to enable help more small firms become successful exporters. We are committed to these goals, we are committed to creating economic opportunity for all Americans, and we look forward to working even more closely with you as we continue to implement the National Export Strategy.

Questions and Responses for the record from Mr. Hauser
submitted by Senators Brownback and Lieberman

Question: I would appreciate your analysis as to whether cutting capital gains in half and indexing them for inflation, if you invested that instead of export promotion, which would actually do the most for our exports. That would seem to me to be something the Department of Commerce would be very interested in analyzing. If you have a macro analysis on that I'd love to see it. *[We note that the question was asked prior to the signing of a capital gains rate cut.]*

Answer

In response to your question, there is no apparent linkage between reduced capital gains tax rates (indexed or otherwise) and exports. In general, capital gains tax rates would not apply to the sale of goods or services whether for export or not. Rather, such income would be treated as ordinary income and taxed at regular rates. What is reasonably clear, however, is that government spending on a wide variety of support programs for exporters of agricultural and nonagricultural products **is** directly linked to export performance. Under the TPCC structure, moreover, the cost of delivering these services (for less than $2.8 billion in FY 1996) is both more efficient than before and relatively small compared to a GDP last year of $7.5 trillion—we note that Commerce's share of those TPCC outlays was just 8 percent in FY 1996. Thus, even if there were a direct linkage between changes in capital gains tax rates and GDP growth, the impact of the rate equivalent of less than three billion dollars is equal to less than **four one hundredths** of one percent of GDP growth. Export growth, by contrast, accounted for over **one third of overall GDP growth last year**.

Question: Do we have macro numbers showing the results of Federal trade promotion expenditures. How much has our investment yielded?

Answer:

The TPCC is far along in developing both strategic budget and performance measures -- important management tools as identified by the Government Performance and Results Act (GPRA). Performance measures are tools which will help us to determine which programs contribute the most to our export promotion goals. Once these measures are in place we can in turn improve program management and ensure effective resource allocation across activities.

A summation of program data, as reported in the *1996 National Export Strategy Report*, suggests that about $68 billion of exports were supported by TPCC-agency programs in FY 95. For perspective, total merchandise exports over this period were approximately $560 billion. In comparison, total Federal expenditures for export promotion in FY 95 amounted to $3.6 billion. There are, of course, limitations of the performance measurement data. In particular, some of the exports reported for certain TPCC activities are anticipated in future years. For instance, a trade agreement negotiated in 1995 or a feasibility study initiated during that year will have benefits in future years that are not dependent on additional funding for that particular negotiation or study. Also, more than one agency may report assistance on the same export transaction.

We expect that in the next few years, as we are better able to assess the overall effectiveness of export promotion programs under the GPRA, we will be able to further target our resources to those programs which yield the greatest return on investment.

Question: How do you respond to the statement that with 19 Federal agencies on the TPCC -- all of them involved in export promotion -- that there must be a better way to organize Federal trade promotion and financing functions?

Answer:

Although there are indeed 20 different government entities that participate in the TPCC process, in reality a much smaller core group of six or so agencies manage the TPCC's day-to-day efforts. In fact, the heads of these agencies (or their deputies) form the TPCC's "Rump Group" or steering committee which meets frequently -- chaired by Commerce -- to ensure coordination for and provides direction to the National Export Strategy. These core agencies include the Departments of State and Treasury, Ex-Im Bank, the Overseas Private Investment Corporation, the U.S. Trade and Development Agency, and the Small Business Administration.

I am not convinced that consolidating all Federal trade promotion and finance agencies into one agency would make our programs more effective. The TPCC's mandate has been to prevent duplication of effort between the agencies and to work as a team to increase U.S. exports. We have in effect created a virtual trade agency, while also enabling agencies to pursue other objectives, including those related to domestic agriculture and rural development, foreign economic development, and foreign policy.

Each agency provides a unique set of services, programs and expertise which complement and enhance each other. The National Export Strategy ensures that the agencies are marching to the same drummer, and yet allows each agency to do what it does best.

Question: What would you change -- if you could -- in terms of Federal export promotion spending?

Answer:

Through the ongoing unified budget process, the TPCC agencies have worked closely with the Office of Management and Budget to ensure that Federal spending on trade promotion and trade finance is in line with the goals established by the National Export Strategy. Indeed, the Administration has developed its budget proposals for TPCC agencies based on cross-cutting reviews of their activities as well as traditional reviews of agency activities. In our last report to Congress on the status of the National Export Strategy, we showed how overall Federal spending on trade promotion and finance programs has changed over the past four years.

The Commerce Department and the TPCC fully support the President's proposals for funding of export promotion programs. These proposals reflect both our long-term trade promotion objectives and current fiscal realities.

Question: Could you produce macro numbers for us on French and Canadian export promotion spending over the past five years and compare those figures to their exports?

Accurate figures on competitor nation spending on export promotion are unavailable. The U.S. is the only industrialized country that has a transparent unified budget for Federal export promotion. However, we do know in terms of resources devoted to trade finance assistance, all of our industrialized competitors heavily utilize their official export credit and financing agencies to support their national exports. For example, the Japanese export credit system supports almost one third of total Japanese exports; France support almost one-fifth; Spain about a tenth; and Canada a fifteenth. In comparison, the U.S. Export-Import Bank supports only 2 percent of U.S. exports and ranks last out of the top eight export credit agencies in terms of national exports supported.

And this kind of assistance can be the key to long-term success. We know that in some critical emerging economies, the U.S. is now losing market share to our competitors. Of the ten countries designated as Big Emerging Markets[1], the overall share of imports of U.S. goods into the BEMs has risen from 17.8 percent in 1990 to 18.5 percent in 1996. Increasing market shares in Latin America are primarily the cause of the aggregate increase, but overall our record is mixed. In Asia, particularly in the lucrative Chinese Economic Area, our market share has declined from 13.5 percent in 1990 to 11.8 percent in 1996. Moreover, while our share of imports into the ASEAN nations have remained constant, U.S. market share has declined vis a vis our competitors in Turkey, South Africa, South Korea and India.

Without U.S. government export promotion and financing programs, we are convinced that America's economic competitors would help their national firms capture even more market share -- and jobs -- for their firms and workers.

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[1] The BEMs are Argentina, Brazil, Mexico, the Chinese Economic Area (including Hong Kong and Taiwan), the ASEAN nations, India, South Korea, Poland, South Africa and Turkey.